THE SOUTHLAND CORPORATION 1991 ANNUAL REPORT

ELEVEN®

COMPANY PROFILE

History

The Southland Corporation began the convenience retailing industry in 1927 when an employee answered the requests of his customers by selling bread, milk and eggs from the steps of his ice dock. Since then, the company has led the development of many new products and services in convenience retailing, including around-the-clock operating hours, self-serve gasoline and 7-Eleven's proprietary semi-frozen drink "Slurpee." At the end of 1991, more than 13,000 7-Eleven and other convenience stores were operated by the company and its franchisees, licensees and affiliates. With $8.08 billion of revenues, Southland is the fifteenth largest retailer in the United States.

On March 5, 1991, Southland completed a Chapter 11 reorganization, and 70 percent of its common stock was purchased by IYG Holding Company. IYG is 51-percent owned by Ito-Yokado Co., Ltd., and 49-percent owned by Seven-Eleven Japan Co., Ltd., the longtime 7-Eleven licensee in Japan. Most of the balance of the common stock is traded publicly through the NASDAQ national list.

Stores

The company includes 6,269 7-Eleven stores in the U.S. and Canada; 222 other retail units operating under the names High's Dairy Stores, Quik Mart and Super-7; and five regional distribution centers and six food centers, which support the stores and sell to outside customers.

Another 6,995 7-Eleven stores are operated by area licensees and affiliates in the United States, Guam, Puerto Rico, the U.S. Virgin Islands and 18 other countries. Of these stores, 4,545 are operated by Seven-Eleven Japan Co., Ltd. Sales from stores operated by licensees and affiliates are not included in the company's total; royalty and equity income from these operations are included in "Other Income." (See inside back cover for lists of stores by country and by state.)

Southland and the Convenience Store Industry

The convenience retailing industry entered the most competitive period in its history during the late 1980s, following several years during which the pace of net store growth significantly exceeded population growth. Although the rate of store growth has begun to slow somewhat, the already tough operating conditions were intensified by the recession in 1991. Once Southland completed the restructuring of its public debt, it refocused its resources and energies on identifying and developing sustainable competitive advantages for its core 7-Eleven convenience store business. A firm believer in the long-term potential of convenience retailing, the company has identified significant opportunities in greatly increasing the breadth and quality of its product and service selection, quicker identification and elimination of poorly selling items, and ongoing introduction of new items.

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FINANCIAL HIGHLIGHTS

(Dollars in Millions, Except Per-Share Amounts)	1991	1990	1989
FOR THE YEAR:			
Net Sales	$ 8,009.5	$8,347.7	$ 8,274.9
Other Income	66.5	62.4	77.0
Total Revenues	8,076.0	8,410.1	8,351.9
Net Earnings (Loss)(1) (2)	82.5	(276.6)	(1,306.9)
Net Earnings (Loss) Per Common Share(1) (2)	.24	(13.93)	(64.76)
Capital Expenditures	69.9	39.6	105.2
Interest Expense(2)	189.3	459.5	572.2
AT YEAR-END:			
Common Shares Outstanding (in thousands)	410,022	20,481	20,504
Number of Stores Operated or Franchised by Southland in U.S. and Canada	6,491	6,705	6,920
Number of Stores Operated by Licensees and Affiliates in U.S. and Overseas	6,995	6,436	5,876
Shareholders of Record(3)	3,314	22	23
Number of Employees (Full-time and Part-time)	42,616	45,665	48,114
Shareholders' Equity (Deficit)(2)	$ (1,210)	$ (1,999)	$ (1,716)
Book Value per Common Share(2)	(2.95)	(97.58)	(83.68)
Total Assets	2,596	2,799	3,439

(1) Net earnings (loss) for the years presented include the following:	1991	1990	1989
Loss on assets sold	–	$ (41.0)	–
Write-off (noncash) of excess of cost over fair value of net assets acquired	–	–	$ (947.0)
Earnings from discontinued operations	–	–	69.4
Gain on debt restructuring	$ 156.8	–	–
Tax benefits from utilization of net operating loss carryforwards	–	52.0	–
Charge resulting from debt exchange	–	–	(56.0)
Cumulative effect of accounting change for postretirement medical benefits	–	(27.2)	–

(2) The company is required to prepare its financial statements since completing its reorganization in accordance with Statement of Financial Accounting Standards No. 15 (SFAS No. 15). Under SFAS No. 15, the liability for the company's restructured public debt as recorded on the balance sheet includes all future undiscounted cash payments, both principal and interest. For that reason, no interest expense will be recognized over the life of these securities, although the interest payments are tax deductible. The liability is reduced by the amount of the interest payments at the time they are disbursed. Those cash interest payments, which are paid semiannually, totaled $97 million during 1991 and will total $65 million annually from 1992 through 1996, after which payments will decline because of bond maturations.

(3) The common stock began trading publicly on March 5, 1991, when the company emerged from bankruptcy.

To our shareholders and bondholders:

In March of last year, Southland emerged from Chapter 11 proceedings begun in October 1990. While no bankruptcy is easy on a company or any of its constituencies, we were able to complete the process in record time for a firm our size. This was possible largely because of the tremendous support we received from many of you, and from our employees, franchisees, licensees, suppliers and other creditors.

For 1991, Southland reported net earnings of $82.5 million, compared to a net loss of $276.6 million the prior year. Some of the key financial differences between the two years are noted on page one. The other most important change was a reduction of $270.2 million in total interest expense due primarily to the public debt restructuring, as well as the effect of SFAS No. 15 on our financial statements (as discussed in Note 9 to Consolidated Financial Statements). In addition, Southland incurred restructuring expenses of $11 million in 1991, compared to $31 million in 1990. The company also benefited from a $7.2 million LIFO credit in 1991, resulting in part from reduced inventories and lower wholesale gasoline prices, compared to a $27.9 million LIFO charge in 1990.

Revenues were $8.08 billion in 1991, down 4.0 percent from 1990, due to some 200 fewer 7-Eleven and other convenience stores, decreased outside sales for our distribution and food centers, and a lower average retail price for gasoline.

Our sales and profits for 1991, and to date this year, have been disappointing, reflecting a company and an industry in transition.

The company has suffered from the distractions and uncertainties of our financial restructuring, and the cumulative impact on our stores of five years of constrained capital spending. The convenience retailing industry continues to reel from the combined effects of intense competitive and economic pressures. Price discounting became increasingly prevalent in 1991, eroding profit margins. In addition, sales were hurt by sharply reduced tourism in Florida and other major markets, the unprecedented slump in the California economy, and Operation Desert Storm, which sharply reduced the populations of military bases in key convenience retailing states. The war in the Middle East also disrupted gasoline markets and created margin pressures for independent gasoline retailers.

While we are beginning to implement a number of important new operating strategies, because of the uncertain economic outlook we do not expect to see a net financial benefit until 1993 and, therefore, anticipate lower operating results this year. Meanwhile, we plan to aggressively reduce our general and administrative expenses to a level consistent with our business environment.

The Chapter 11 restructuring provided Southland with critical new capital and cut approximately in half both the face amount outstanding and the interest rates on the company's high-yield debt. However, it has been necessary to continue working with our

THE REBUILDING PROCESS IS JUST BEGINNING. WE WILL CONTINUE TO REFINE OUR TACTICS, WHILE FOCUSING OUR PRIMARY EFFORTS ON STORE-BY-STORE MERCHANDISING, THE KEY TO AGAIN MAKING 7-ELEVEN THE AGGRESSIVE AND PROFITABLE RETAILER THAT WE KNOW IT CAN BE.

senior bank lenders to improve the company's financial flexibility. Our revolving credit facility, used primarily to provide the letters of credit required in the normal course of business, expires in December 1992, and we are currently discussing its extension with those lenders.

In addition, we recently received an amendment to our bank credit agreement, which revised 1992 and early 1993 covenants to reflect our lower earnings expectations. Furthermore, in the second half of 1992 the company intends to arrange a new financing with some assistance from Ito-Yokado Co., Ltd. We expect to use proceeds from this new financing and some of our cash to prepay a significant portion of the term loan.

In March 1991, Southland received $430 million in new equity capital from the purchase of 70 percent of its common stock by IYG Holding Company, which is jointly owned by Ito-Yokado Co., Ltd. (IY), and its subsidiary, Seven-Eleven Japan Co., Ltd. (SEJ). IY is the most profitable retailer in Japan, and SEJ is its fastest-growing, most profitable subsidiary. Our relationship with IY began in 1973 when it became Southland's first international licensee. Today SEJ is the preeminent convenience retailer in Japan, with over 4,500 7-Eleven stores.

Shortly after emerging from bankruptcy, we began, together with IY and SEJ, the most intensive business review in Southland's history. This process will continue indefinitely as we work to constantly improve every aspect of our operations. Our efforts have been immeasurably assisted by IY and SEJ. While we cannot simply transplant all of SEJ's operating practices to our own business, we believe that adopting the key elements will enable Southland to develop a long-term, sustainable competitive advantage. Teams from IY, SEJ and Southland have been meeting on a regular basis to plan and begin implementing specific improvements. In addition, our employees and franchisees are working diligently to apply these ideas and ensure their smooth integration into our system.

Fundamental to these new operating strategies is the reshaping of our company "culture" so that decisions are driven by customer needs and desires, not by organization size and structure.

We are focusing our first and most intensive efforts on merchandising, the core of our 7-Eleven retailing business. Our new merchandising plan is designed to greatly expand and improve the quality of 7-Eleven's product selection by deleting items that do not sell while stocking our shelves with what our customers really want, including products that are new to the marketplace.

To help accomplish this, we reorganized our corporate and field marketing groups into a single, centralized merchandising organization to improve our ability to give 7-Eleven customers what they want, when and how they want it. This change will greatly enhance our ability to work with manufacturers and suppliers to speed the introduction of new products into our stores and reduce our purchasing costs. Our goal is to provide better, more consistent value to our customers, while improving overall 7-Eleven profitability.

WHILE WE CANNOT SIMPLY TRANSPLANT ALL OF SEJ'S OPERATING PRACTICES TO OUR OWN BUSINESS, WE BELIEVE THAT ADOPTING THE KEY ELEMENTS WILL ENABLE SOUTHLAND TO DEVELOP A LONG-TERM, SUSTAINABLE COMPETITIVE ADVANTAGE.

More consistent value was also the objective behind our decision in 1991 to implement a new retail pricing strategy. Our business review indicated that 7-Eleven pricing often confused customers while reducing merchandise margins. We are now moving toward "everyday fair pricing" — increasing prices on some items and reducing them on others. This, combined with less promotional discounting, should improve 7-Eleven's overall margin.

Another way to offer better value to our customers while improving our margin is to reduce our wholesale distribution and purchasing costs. To accomplish this, our five distribution and six food centers now place primary operating emphasis on supporting 7-Eleven stores.

During 1991, we set higher and more uniform physical standards for 7-Eleven stores. Over the next several years, we plan to dedicate a majority of our capital budget to remodeling stores to meet or exceed those standards, and thus expect to open very few new stores.

These new standards were introduced last summer in 50 stores in Austin, Texas. They include greatly increased exterior and interior lighting, wider aisles, lower sales gondolas with user-friendly aisle markers, upgraded gasoline island equipment, and a new tri-striped exterior store facade that will replace the mansard roofs of many of our existing stores.

Long-term, we do not intend to continue operating 7-Eleven stores whose physical condition or performance is unacceptable. In 1991, we opened 23 and closed 237 stores. This pruning process will continue for the near future as we concentrate on improving the profitability and image of the existing store base.

Our success in implementing these strategies depends on how well we balance the company's objectives with individual store needs. It requires excellent coordination among all operating and staff functions. As a result, we have set up more formalized, two-way communications systems to promptly transmit information throughout our company as efficiently as possible. Each 7-Eleven store — where the customer, merchandising and communication all come together — is the focal point of the process.

When Southland emerged from bankruptcy, we recognized there were many operating and financial challenges still ahead. We have taken some positive steps, but the rebuilding process is just beginning. We will continue to refine our tactics, while focusing our primary efforts on store-by-store merchandising, the key to again making 7-Eleven the aggressive and profitable retailer that we know it can be.

We are building on several major advantages. First, the 7-Eleven name is one of the most widely recognized in American retailing. Second, we have new capital as well as access to the considerable operational expertise of IY and SEJ. Third, our proposed new financing will give us more financial and operating flexibility. Finally, we have identified several major changes needed in our organization structure, store image and merchandising practices, including inventory management and pricing, and we have begun making those improvements.

The task of reshaping virtually every aspect of our organization and business is enormous. We are balancing our employees' and franchisees' eagerness for change with the need for a consistent, well-considered merchandising message to our customers and the processes to profitably sustain it. I look forward to keeping you updated on our progress.

Sincerely,

Clark J. Matthews II

Clark J. Matthews, II
President and Chief Executive Officer
March 27, 1992

Southland's convenience retailing operations accounted for $7.52 billion or 93.9 percent of the company's net sales in 1991. In addition to 7-Eleven stores, the operations include 160 High's Dairy Stores and 62 Quik Mart and Super-7 high-volume gasoline locations. Total revenue of $8.08 billion included other income of $66.5 million, comprised primarily of interest income and royalties from 7-Eleven area licensees.

At year-end, Southland operated or franchised 6,491 7-Eleven and other convenience stores in the United States and five provinces of Canada. Approximately 47 percent of the stores are operated by franchisees, and sales from these stores are included in the company total. Area licensees or affiliates operate another 6,344 stores in 18 other countries and three U.S. territories, as well as 651 stores in the United States (see inside back cover).

The company's five distribution centers and six food centers serve 73 percent of the 7-Eleven stores, as well as other retail accounts, in 38 states and the District of Columbia. Total 1991 sales of $1.58 billion included outside sales of $469.9 million.

In 1991, same-store merchandise sales (sales at stores open more than one year) increased .26 percent. Real growth was a negative 2.5 percent after adjusting for 7-Eleven-specific inflation of 2.83 percent. Merchandise gross profit margins were down for the year, mostly due to the recession and competitive pressures from traditional and oil company convenience stores, as well as other retail outlets. In addition, an unusually cool, wet summer in many parts of the country lowered sales of high-margin products such as fountain soft drinks during the company's most important selling season.

Southland is one of the country's largest independent gasoline retailers, at year-end selling gasoline at 2,380 locations, mostly under the "CITGO" brand name. In 1991 the company sold 1.39 billion gallons, slightly lower than the 1990 level primarily

A LARGE PERCENTAGE OF SOUTHLAND'S CAPITAL INVESTMENTS FOR THE NEXT SEVERAL YEARS WILL BE USED TO UPGRADE STORE EXTERIORS, INCLUDING THE EXPANSION OF GASOLINE CANOPIES AND THE INSTALLATION OF MODERN-LOOKING THREE-COLOR STRIPED STORE FACADES WHERE POSSIBLE. PARKING LOT LIGHTING WILL ALSO BE GREATLY INCREASED.

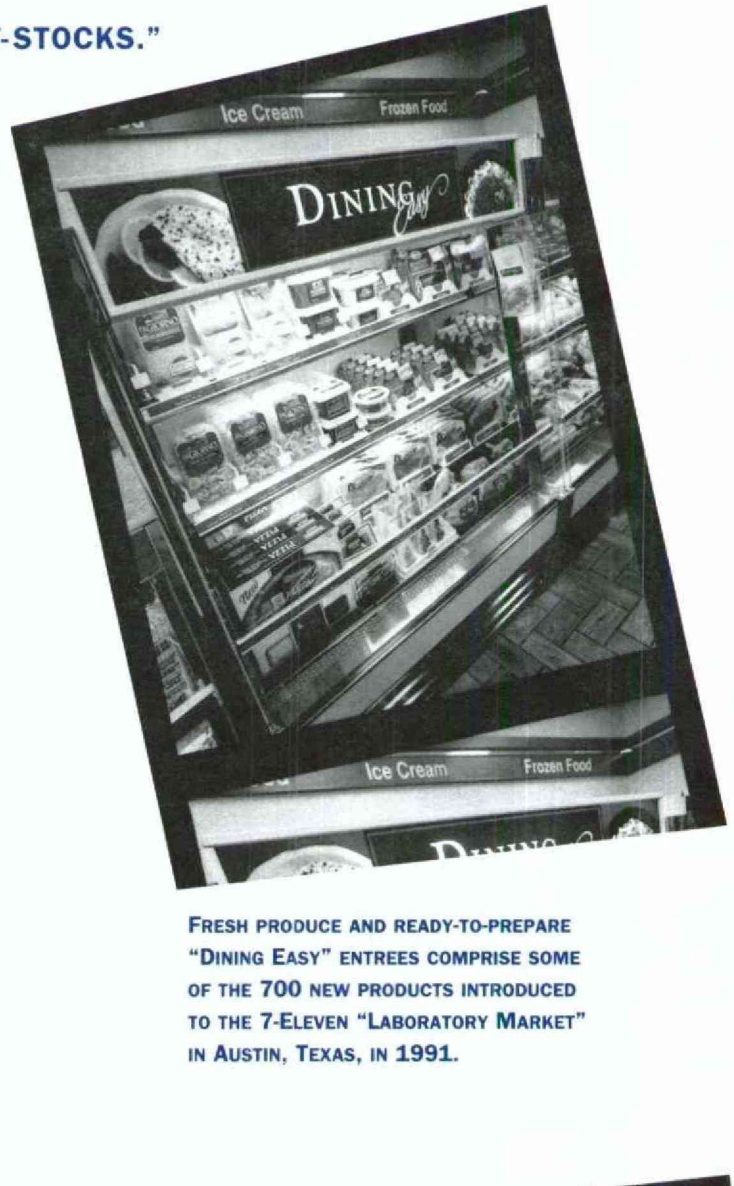
THE COMPANY'S PRIMARY GOALS ARE TO IDENTIFY EVERY COST-EFFECTIVE WAY TO SPEED UP THE INTRODUCTION OF NEW PRODUCTS TO THE STORES, LOWER BUYING COSTS OF EXISTING PRODUCTS WHERE POSSIBLE, ELIMINATE SLOW-MOVING MERCHANDISE, AND REDUCE INVENTORIES WITHOUT DISAPPOINTING CUSTOMERS WITH "OUT-OF-STOCKS."

because of approximately 70 fewer gasoline installations.

Gasoline retailing was extremely competitive in 1991, due to unusually aggressive pricing by integrated oil companies, a four percent decline in overall gasoline consumption in the U.S., and a lower percentage of high-margin premium unleaded gasoline in the product mix of independent retailers.

Despite these difficult conditions, Southland's gasoline margin for the year was above the average for self-serve gasoline retailers in the markets where it operates. Southland has a comprehensive management information system for gasoline sales and pricing data, which has helped it to maintain margins above the industry average for the last several years. Southland's 1991 average gross profit of 9.86 cents per gallon was down 1.74 cents from 1990, but gallons sold per store were about even with the prior year, as a "Frequent Filler" promotion helped to offset competitive conditions.

Although gasoline accounts for only about six percent of the company's total convenience store gross profits, it provides a much higher percentage of profits in the 7-Eleven locations where



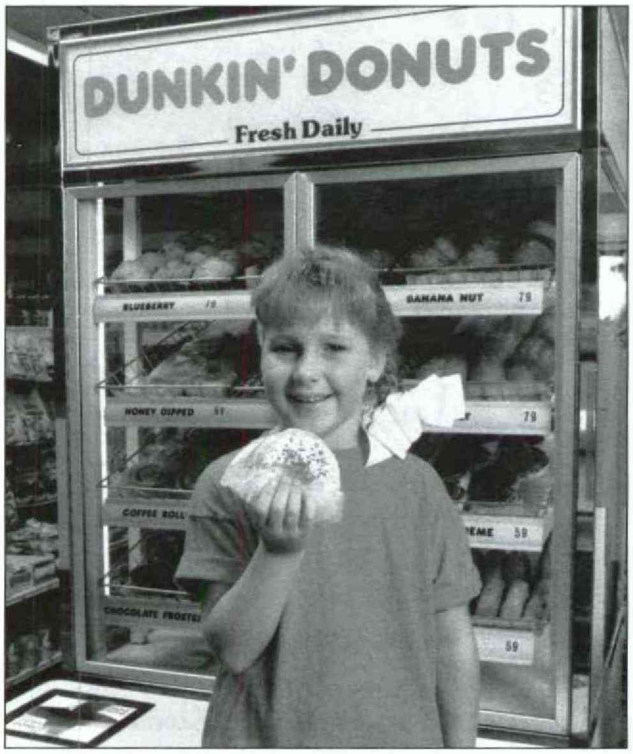
FRESH PRODUCE AND READY-TO-PREPARE "DINING EASY" ENTREES COMPRISE SOME OF THE 700 NEW PRODUCTS INTRODUCED TO THE 7-ELEVEN "LABORATORY MARKET" IN AUSTIN, TEXAS, IN 1991.

FIFTY STORES IN AUSTIN, TEXAS, WERE COMPLETELY RE-MERCHANDISED DURING THE SUMMER OF 1991. ON THE APPOINTED DAY, ONE OF TWO SPECIAL TEAMS WOULD DESCEND ON A STORE AT SUNRISE. BY NOON, EVERY SHELF WOULD HAVE BEEN EMPTIED AND REFILLED WITH A NEW PRODUCT MIX, ALL WITHOUT CLOSING THE STORE.

New 7-Eleven store standards introduced in Austin, Texas, in late 1991 include wider aisles, lower sales gondolas, shopper-friendly aisle markers and increased illumination. The 7-Eleven image will also be enhanced by reduced product displays at the ends of sales gondolas and less cluttered check-out counters.

it is sold. Southland plans to allocate a significant percentage of its capital expenditures in 1992 and 1993 to its gasoline facilities, primarily upgrades of equipment and canopies at existing sites. Virtually all 7-Eleven stores that are suitable for gasoline sales already have installations.

In 1991 Southland closed or sold 237 stores due to changing market patterns, lease expirations or unprofitability — a



7-ELEVEN CONTINUES TO EXPLORE WAYS TO ENHANCE ITS FAST FOOD PROGRAM WITH NATIONALLY KNOWN NAME-BRAND PRODUCTS, SUCH AS "DUNKIN' DONUTS," DELIVERED FRESH DAILY TO ABOUT 2,000 STORES.

pruning process that will continue in 1992 and beyond. The company opened only 23 new stores, for a net decrease of 214 units during the year.

Southland began several initiatives in 1991 and early 1992 aimed at making its stores more responsive to customers and ultimately more profitable, including a revision of its merchandising organization. 7-Eleven's primary goals are to identify every cost-effective way to speed up the introduction of new products to the stores, lower buying costs of existing products where possible, eliminate slow-moving merchandise, and reduce inventories without disappointing customers with "out-of-stocks."

Year-end inventories at both the stores and distribution centers were down compared to the prior year. The company intends to continue its emphasis on tight inventory tracking and increasing inventory turns.

In October 1991 the company unveiled a totally re-merchandised "laboratory market," consisting of 50 remodeled 7-Eleven stores in Austin, Texas. In preparation for the test, more than 700 items in the Austin stores were deleted, and about the same number of new products were added. A "100% satisfaction guarantee" was advertised widely to customers, and fresh produce and new "Dining Easy" entrees, including Tyson's Roasted Chicken and Contadina ready-to-prepare pizzas, were introduced.

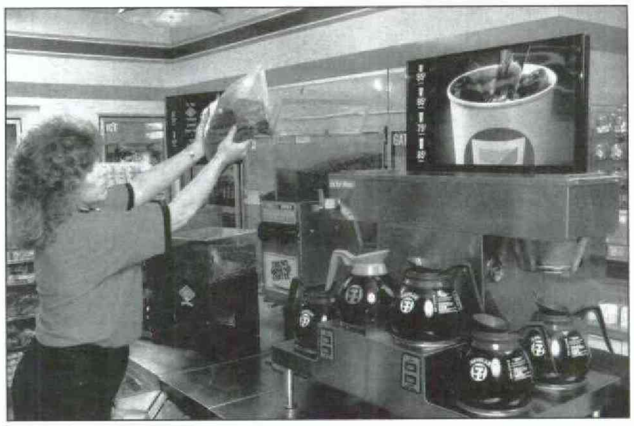
Certain elements of the ongoing Austin market test are already being tried in other areas, such as selected Dining Easy entrees and the daily delivery of fresh deli sandwiches made at a

TO HELP IMPLEMENT ITS NEW MERCHANDISING STRATEGIES AND TACTICS, SOUTHLAND INTRODUCED THE "INDIVIDUAL STORE DEVELOPMENT PLAN" (ISDP) IN 1991.

commissary. In addition, the "look" of the Austin stores has been established as the standard for remodeled 7-Eleven stores.

To help implement its new merchandising strategies and tactics, Southland introduced the "Individual Store Development Plan" (ISDP) in 1991. The ISDP, which had been tested for a year in several 7-Eleven divisions and refined by committees of franchisees and store managers, will improve communications among all levels of 7-Eleven operations so that Southland can better serve its customers. Its goal is to identify and promote profitable business-building activities on the part of both store operators and management. As an outgrowth of ISDP, the job responsibilities of 7-Eleven field consultants are being revised to reduce administrative tasks and to provide them more time and management support for merchandising activities.

Southland's new merchandising structure, the laboratory market in Austin, Texas, tighter inventory tracking and ISDP are all evidence of its efforts to restore merchandising as the fundamental strength of 7-Eleven store operations. In this way, the company plans to reduce its reliance on discount pricing and identify "actionable" information and activities that will produce profitable growth by giving customers more of what they want, better than anyone else.



7-ELEVEN COFFEE, MADE FROM BEANS GROUND IN THE STORE, IS A HIGH-MARGIN PRODUCT WITH GOOD "PLUS SELLING" POTENTIAL. HIGH SALES VOLUME AND CAREFUL ATTENTION BY STORE STAFF MEAN THAT 7-ELEVEN COFFEE IS ALWAYS FRESH AND HOT.

FRESH GRILLED HOT DOGS AND LINK SAUSAGE BREAKFAST SANDWICHES, MAINSTAYS OF 7-ELEVEN'S FAST FOOD PROGRAM, ARE AVAILABLE IN ALMOST 6,000 STORES. STORE MANAGER LINDA GRAHAM FROM PLANO, TEXAS, IS SHOWN HELPING A CUSTOMER.

SOUTHLAND CONVENIENCE STORE SALES BY CATEGORY

Gasoline	21.5%
Tobacco Products	19.1
Beer/Wine	10.7
Soft Drinks	10.3
Food Service	8.4
Groceries	8.1
Non-foods	5.8
Dairy Products	5.0
Candy	3.9
Baked Goods	3.4
Health/Beauty Aids	2.0
Customer Services	1.8
Total	100.0%

(Percentages are approximate.)

(Dollars in Millions, Except Per-Share Data)	Successor: Years Ended December 31: 1991	1990	1989	1988	Five Months Ended December 31, 1987	Predecessor: Seven Months Ended July 31, 1987[h]
Net sales	$8,009.5	$8,347.7	$8,274.9	$7,950.3	$3,211.0	$4,865.4
Other income	66.5	62.4	77.0	40.2	14.6	33.9
Total revenues	8,076.0	8,410.1	8,351.9	7,990.5	3,225.6	4,899.3
LIFO charge (credit)	(7.2)	27.9	2.8	19.1	1.4	9.0
Depreciation and amortization	200.1	227.6	276.7	294.7	105.3	113.8
Interest expense	189.3[a]	459.5	572.2	560.3	163.5	45.1
Earnings (loss) from continuing operations before income taxes	(66.3)	(430.0)[c]	(1,332.3)[e]	(397.1)	(235.7)	43.9
Income taxes (benefit)	8.0	(128.5)	(12.0)	(111.9)	(68.7)	21.8
Earnings (loss) from continuing operations	(74.3)	(301.5)	(1,320.3)	(285.2)	(167.0)	22.1
Earnings (loss) before extraordinary items and cumulative effect of accounting change for postretirement medical benefits	(74.3)	(301.5)	(1,250.9)[f]	(216.2)[f]	(149.7)[f]	90.1[f]
Net earnings (loss)	82.5[b]	(276.6)[d]	(1,306.9)[g]	(216.2)	(149.7)	90.1
Earnings (loss) per common share:						
From continuing operations:						
Primary	(0.22)	(15.14)	(65.41)	(15.63)	(8.40)	3.35
Fully diluted	(0.22)	(15.14)	(65.41)	(15.63)	(8.40)	3.35
Before extraordinary items and cumulative effect of accounting change:						
Primary	(0.22)	(15.14)	(62.02)	(12.19)	(7.53)	17.35
Fully diluted	(0.22)	(15.14)	(62.02)	(12.19)	(7.53)	17.35
Net earnings (loss) applicable to common shares:						
Primary	0.24	(13.93)	(64.76)	(12.19)	(7.53)	17.35
Fully diluted	0.24	(13.93)	(64.76)	(12.19)	(7.53)	17.35
Total assets	2,595.8	2,799.0	3,438.8	4,861.5	5,382.2	N/A
Long-term debt, including current portion	3,041.8[a]	3,705.2	4,149.5	4,314.8	4,606.2	N/A
Redeemable preferred stock	—	148.5	139.7	118.8	91.3	—
Cash dividends per common share	—	—	—	—	—	0.56

NOTES TO SELECTED FINANCIAL DATA

(a) The New Debt Securities are accounted for in accordance with SFAS No. 15 as explained in Note 9 of Notes to Consolidated Financial Statements.

(b) Net earnings (loss) include an extraordinary gain on debt restructuring of $156,824,000 as explained in Note 1 of Notes to Consolidated Financial Statements.

(c) Earnings (loss) from continuing operations before income taxes reflect the loss on assets sold of $41,000,000 as explained in Note 6 of Notes to Consolidated Financial Statements.

(d) Net earnings (loss) include extraordinary tax benefits from utilization of net operating loss carryforwards of $52,040,000 and a charge for the cumulative effect of an accounting change for postretirement medical benefits expense of $27,163,000 as explained in Notes 15 and 13, respectively, of Notes to Consolidated Financial Statements.

(e) Earnings (loss) from continuing operations before income taxes reflect the write-off of $946,974,000 of excess of cost over fair value of net assets acquired as explained in Note 2 of Notes to Consolidated Financial Statements.

(f) Earnings (loss) before extraordinary items and cumulative effect of accounting change for postretirement medical benefits include earnings from a discontinued operation (Citgo) of $69,410,000, $69,001,000, $17,235,000, and $68,001,000, for 1989, 1988, Five Months Ended December 31, 1987, and Seven Months Ended July 31, 1987, respectively, as explained in Note 6 of Notes to Consolidated Financial Statements.

(g) Net earnings (loss) include an extraordinary charge of $56,047,000 resulting from a debt exchange.

(h) The selected financial data for the years ended December 31, 1991, 1990, 1989 and 1988, and the five months ended December 31, 1987, reflects the purchase of the Company by JT Acquisition Corporation, and a resultant new basis of accounting. The figures for the seven months ended July 31, 1987, are not comparable to those for any succeeding period. See Note 1 of Notes to Consolidated Financial Statements and Management's Discussion and Analysis.

Liquidity and Capital Resources

On February 21, 1991, four months after filing a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code, the Company's plan of reorganization (the "Restructuring") was confirmed by the U.S. Bankruptcy Court for the Northern District of Texas. The Restructuring included the exchange of the Company's $1.5 billion of public debt securities (the "Old Debt Securities") and 15% Cumulative Exchangeable Preferred Stock (the "Redeemable Preferred Stock") for new debt securities (the "New Debt Securities") and/or common stock (the "Common Stock"), cash and warrants to purchase shares of Common Stock, at a price of $1.75 per share, from certain of the existing shareholders of the Company, including the founding Thompson family (the "Thompson Warrants"). On March 5, 1991, the Company consummated the Restructuring and completed its bankruptcy reorganization with the closing of a Stock Purchase Agreement (the "Stock Purchase Agreement") with IYG Holding Company (the "Purchaser"), which is a jointly owned subsidiary of Ito-Yokado Co., Ltd., and Seven-Eleven Japan Co., Ltd. Under the terms of the Stock Purchase Agreement, the Purchaser acquired approximately 70% of the Company's Common Stock for $430 million in cash.

Pursuant to the Restructuring, and subsequent to the pro rata allocation of the Thompson Warrants, all holders of each $1,000 principal amount of the Company's 13-1/2% Senior Extendible Reset Notes due 1995 are entitled to receive $475 principal amount of 12% Senior Notes due 1996 (the "New Senior Notes"), 86.5 shares of the Company's Common Stock, $57 in cash and one Thompson Warrant; all holders of each $1,000 principal amount of its 15-3/4% Senior Subordinated Notes due 1997 are entitled to receive $650 principal amount of 5% First Priority Senior Subordinated Debentures due 2003 (the "New First Priority Debentures"), 40.5 shares of Common Stock and 8.2 Thompson Warrants; all holders of each $1,000 principal amount of its 16-1/2% Senior Subordinated Discount Notes due 1997 are entitled to receive $555 principal amount of New First Priority Debentures, 35 shares of Common Stock and 7.2 Thompson Warrants; 82.5% of the holders of each $1,000 principal amount of its 16-3/4% Subordinated Debentures due 2002 are entitled to receive $500 principal amount of 4.5% Second Priority Senior Subordinated Debentures (Series A) due 2004, 28 shares of Common Stock and 6 Thompson Warrants, while the remaining 17.5% of the holders have elected to receive $250 principal amount of 12% Second Priority Senior Subordinated Debentures (Series C) due 2009 and 28 shares of Common Stock; all holders of each $1,000 principal amount of its 18% Junior Subordinated Discount Debentures due 2007 are entitled to receive $257 principal amount of 4% Second Priority Senior Subordinated Debentures (Series B) due 2004, 11 shares of Common Stock and 6 Thompson Warrants; and holders of each share of the Company's Redeemable Preferred Stock are entitled to receive one share of Common Stock and .073 Thompson Warrants.

Upon consummation of the Restructuring, the common equity of the Company was owned approximately 70% by the Purchaser, 25% by the holders of the Old Debt Securities and Redeemable Preferred Stock, and 5% by the holders of the Common Stock prior to the Restructuring.

The primary financial objectives of the Restructuring were to reduce the Company's debt service requirements and provide it with additional capital, which would significantly improve the Company's liquidity and enhance its ability to make capital expenditures. As part of the Restructuring, the Company and The Sanwa Bank Limited ("Sanwa") entered into an agreement providing that, upon maturity in 1995 of the $290 million of 7-7/8% Cityplace Notes issued to finance the construction of the Company's headquarters tower and related facilities, the noteholders will draw on letters of credit issued by Sanwa in payment of their principal. At such time, the Company has the option of either repaying the principal to Sanwa or extending the term until 2005 with monthly payments of principal and interest based upon a 25-year amortization at 7-1/2% interest with all remaining principal being due upon maturity.

In 1987, the Company entered into a credit agreement (the "Credit Agreement") with various banks and financial institutions (the "Banks") pursuant to which it borrowed approximately $2.5 billion (with a balance of $729.9 million remaining at December 31, 1991) in term loans (the "Term Loans") to finance its

leveraged buyout. In December 1991, the Banks agreed to modify certain covenants in the Credit Agreement so that the Company remained in compliance with that agreement during the fourth quarter of 1991, in return for a $75 million prepayment of the Term Loan. The Company expects its EBITDA (earnings before interest, taxes, depreciation and amortization) to be below the levels previously forecasted (see Results of Operations), which would result in violations of certain covenants in the Credit Agreement. On March 26, 1992, the banks agreed to amend certain covenants for 1992 and the first quarter of 1993 and therefore the Company believes it will be able to remain in compliance with the Credit Agreement. The Company has requested that the Banks agree to extend the revolving credit facility under the Credit Agreement beyond its December 31, 1992, expiration. In addition, in the second half of 1992, the Company intends to arrange a new financing with some assistance from Ito-Yokado. The Company expects to utilize the proceeds from such new financing and some of its cash to prepay a significant portion of the Term Loan.

The Company is presently exploring various alternatives to refinance the 12% Canadian Notes due in July 1992, which were issued by Southland Canada, Inc., and guaranteed by the Company, and which had a remaining principal balance of $34.3 million U.S. at year-end 1991. The Company will have adequate liquidity to redeem these bonds at maturity, if necessary.

Cash Flows from Operating Activities

During the twelve months ended December 31, 1991, $153.9 million of cash was provided by operating activities. Of this amount, $74.5 million was provided by a reduction in inventories, primarily related to the Company's efforts to manage its inventory levels, and an additional $34.9 million was provided by a reduction in accounts receivable, the majority of which was related to franchisee receivables. In addition, cash was used to

SOUTHLAND BEGAN TO RE-EXAMINE VIRTUALLY EVERY PART OF ITS BUSINESS DURING THE FIRST YEAR AFTER IT EMERGED FROM BANKRUPTCY, OFTEN IN MEETINGS OF CROSS-FUNCTIONAL TEAMS OF EMPLOYEES AND FRANCHISEES. PICTURED WITH CLARK MATTHEWS, PRESIDENT AND CHIEF EXECUTIVE OFFICER (CENTER), ARE (L.) MIKE ROEMER, VICE PRESIDENT, CENTRAL REGION, 7-ELEVEN STORES; AND DANIEL DUNCAN, PRESIDENT, MANAGEMENT STRUCTURES AND SYSTEMS INC.

pay $93.1 million in interest on the Term Loan and revolving credit facility, $77.9 million in interest on certain other secured indebtedness, $24.9 million of costs related to the Restructuring, $20.4 million of income taxes primarily relating to 1990 taxes, $32.4 million in deposits and prepaid expenses, and the Company's remaining uncontested prepetition liabilities that it was prohibited from paying while in bankruptcy.

Cash Flows from Investing Activities

During the twelve months ended December 31, 1991, cash used in investing activities primarily consisted of payments of $69.9 million for property, plant and equipment, the majority of which was used for upgrading store exteriors, enhancing gasoline facilities and providing major maintenance to certain existing stores. This amount represents approximately half of that originally anticipated to be expended, due to the lead time required for the projects.

The Company anticipates that it may have increased maintenance expenditures in the future in connection with environmental requirements related to continuing upkeep of its gasoline storage tanks at store locations. The Company currently estimates that it will be required to spend approximately $25 million on capital improvements over the next five years in order to comply with governmental requirements affecting gasoline storage tanks. In addition, the Company expects that it will be required to expense $50 to $60 million over the same period to undertake corrective action for known releases of regulated substances at certain of its existing and previously operated gasoline sites. The estimated expenditures could increase if more stringent governmental requirements are adopted or if additional releases are discovered and corrective action is required.

Effective October 23, 1991, the Company signed a definitive agreement with Christy's Market, Inc., under which Christy's intends to acquire Southland's 47 7-Eleven and six Quik Mart stores and related real estate in the Boston, Massachusetts, and surrounding market areas, and will become a 7-Eleven area licensee in the Boston, Nashua (New Hampshire) and Providence (Rhode Island) market areas. In addition to the stores that would be acquired, the agreement covers approximately 100 Christy's stores that would become 7-Eleven stores. Although this transaction was originally expected to close in late 1991, it has now been delayed.

The Company will continue to evaluate the sale and closing of additional stores, as it believes is prudent, in order to improve the profitability of its store base.

Cash Flows from Financing Activities

During the twelve months ended December 31, 1991, the Company received $430 million upon the closing of the Stock Purchase Agreement with the Purchaser (the "Closing"). In addition, the Company repaid $138.8 million under the Term Loan, reducing the remaining balance at December 31, 1991, to $729.9 million. The Company also repaid $75 million under the prepetition revolving credit facility, the $25 million term loan from Ito-Yokado and $30 million to the holders of the Old Senior Notes pursuant to the Restructuring. During the year, the Company made cash interest payments of $97.2 million on the New Debt Securities relating to the periods from June 15, 1990, to December 15, 1991. In accordance with the provisions of Statement of Financial Accounting Standards No. 15 (SFAS No. 15), "Accounting by Debtors and Creditors for Troubled Debt Restructurings," the New Debt Securities were recorded as a liability at an amount equal to the future undiscounted cash payments, both principal and interest. Accordingly, no interest expense will be recognized over the life of these securities, and cash interest payments will reduce the recorded amount of such securities as those interest payments are made on June 15 and December 15 of each year; however, for income tax purposes such interest payments will be deductible. Also during 1991, the Company borrowed and repaid $25 million under its Debtor-in-Possession Financing facility, which was obtained in order to provide sufficient working capital and liquidity during the Restructuring. Effective as of the Closing, the revolving credit facility under the Credit Agreement was reinstated at a $275 million

level. In addition, there have been no borrowings under this facility for liquidity purposes since such time. However, $113.1 million in letters of credit were outstanding as of December 31, 1991.

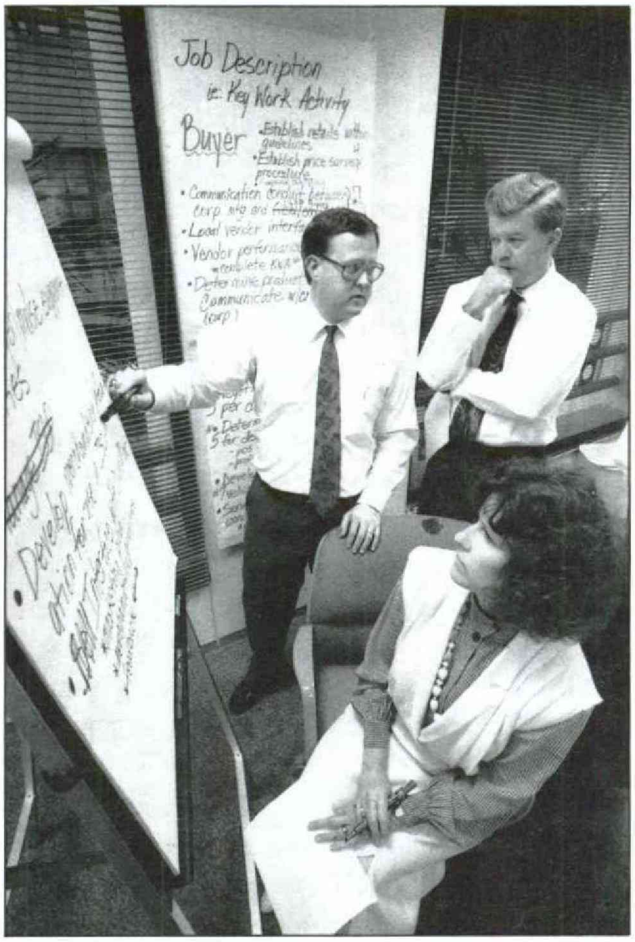
On March 17, 1992, the Bankruptcy Court for the Northern District of Texas rendered its opinion that the Company will be required to pay $12.2 million of additional interest to the Banks. The award was based upon the claim that such additional interest was due under the Credit Agreement, because of the Company's decision not to make the June 15, 1990, interest payment to the holders of its Old Debt Securities and to delay a subsequent partial repayment of a loan under its revolving credit facility. The Company has recognized the additional interest as a charge against 1991 earnings, but has appealed this decision.

Results of Operations - Twelve Months Ended December 31, 1991

The Company recorded net sales of $8.0 billion for the twelve months ended December 31, 1991, versus $8.3 billion for the same period last year. The decline is primarily due to fewer convenience stores, lower retail gasoline prices and the phasing out of outside foodservice business at the distribution centers. Convenience store sales of $7.5 billion accounted for 94% of net sales. Same-store (stores open more than a year) merchandise sales increased .26% in 1991 while 7-Eleven experienced an annualized inflation rate of 2.8% for the same period, resulting in negative real growth of 2.5%. 7-Eleven has experienced negative real growth in merchandise sales since early 1989 primarily due to the effects of competitive pressures in the convenience retailing industry and more recently to the recession. Gasoline sales per store month decreased 3.2% due primarily to lower average retail prices.

Other income of $66.5 million in 1991 consisted primarily of royalties from area licensees and interest income.

The Company's consolidated gross margin (gross profit divided by sales) was 20.68%. The convenience stores' merchandise gross margin decreased 0.49 percentage points due to the recession and competitive pressures. Gross profit on retail gasoline sales decreased to 9.9 cents per gallon in 1991 from 11.6 cents last year due primarily to unusually aggressive pricing by integrated oil companies. Gallonage on a per-store-month basis remained virtually flat, despite an approximate 4% decline in overall U.S. consumption, mostly as a result of successful marketing efforts.



A SPECIAL ACTION GROUP WORKED SIX STRAIGHT DAYS IN JANUARY 1992 TO DEVELOP SOUTHLAND'S NEW MERCHANDISING ORGANIZATION. PARTICIPANTS INCLUDED (CLOCKWISE) SCOTT ROBERTSON, NORTHWEST DIVISION MERCHANDISE MANAGER; SID BROCKMAN, FLORIDA DIVISION MERCHANDISE MANAGER; AND GINNY VAN HESPEN, SAN DIEGO DIVISION SALES AND PROMOTION MANAGER.

Selling, general and administrative expenses decreased $78.8 million in 1991. The decline for the year is primarily attributed to $20.2 million less in Restructuring expenses and approximately $23 million in ongoing savings associated with certain cost reduction measures. As a result, the ratio of selling, general and administrative expenses to sales was 19.8%, a decrease of .14 percentage points from the same period last year.

In 1991, the Company began an intensive business review to identify, test and develop strategies and programs designed to provide the Company with a competitive advantage and improve sales and profitability potential over the longer term. As a result, the Company has begun some important marketing tests and implementation of inventory management processes aimed at emphasizing item-by-item tracking of merchandise at each store to eliminate slow-moving merchandise and introduce new, faster-moving items. Some of these plans, like a program to enhance communications between the Company's field staff, franchisees and store managers based on individual store development plans, are anticipated to improve customer service and increase merchandise sales. However, they will also have an initial negative impact on earnings during their start-up in 1992 and 1993. In addition, the Company's labor costs are expected to rise in the future due to wage increases and compliance with any local legislation that may require additional personnel to operate the stores.

Although the Company's merchandise sales increased on a per-store-month basis during 1991, these increases did not compensate for the decrease in merchandise margins that resulted from the effects of the recession and competitive pressures. As a result of the current economic outlook, intense competition, significantly lower-than-anticipated capital expenditures in 1991 and implementation of new programs, the Company expects its operating results to decline further in 1992.

The Company's total interest expense decreased $270.2 million during the year, which included $231.3 million in interest on the Old Debt Securities, primarily due to the effects of the Restructuring. The Company stopped accruing interest on the Old Debt Securities at the time it filed bankruptcy. In addition, as required by SFAS No. 15 the related interest payments on the New Debt Securities are not being charged to interest expense, but rather are charged against their recorded amounts (see Note 9 to the Company's Consolidated Financial Statements for the year ended December 31, 1991, herein). Additional factors include lower Term Loan balances, declining interest rates on the Term Loan and the absence of borrowings under the Credit Agreement's revolving credit facility after consummation of the Restructuring. As a result of the above factors, the Company's reported interest expense will continue to be significantly reduced in future years.

At December 31, 1991, approximately 53% of the Company's bank term debt was hedged against future interest rate increases. In 1991, the weighted average interest rate of the Company's Term Loan indebtedness under the Credit Agreement, including the cost of hedging and interest swaps, was 11.5%. The net cost of hedging was $8.4 million higher than interest expense would have been without hedging. The hedging program expired in early 1992, and given the Company's high percentage of fixed rate debt, the Banks have eliminated the hedging requirement from the Credit Agreement.

In accordance with SFAS No. 15, the Company recognized a gain on the Restructuring of $156.8 million for the twelve months ended December 31, 1991. In addition, shareholders' equity increased by $127.8 million as a result of the exchange of Redeemable Preferred Stock for Common Stock associated with the Restructuring.

During February 1992, the Financial Accounting Standards Board adopted SFAS No. 109, "Accounting for Income Taxes," which supersedes SFAS No. 96. The Company will adopt this statement as of January 1, 1993. The impact of the adoption of SFAS No. 109 is not known, and is not reasonably estimable at this time due primarily to the Company's continuing investigation as to the practicability of adjusting the accounting for the 1987 Merger to comply with SFAS No. 109.

As a result of the factors described above, and a foreign tax expense of $8.0 million, the Company's net earnings for the year ended December 31, 1991, were $82.5 million.

Results of Operations - Twelve Months Ended December 31, 1990

The Company recorded net sales of $8.3 billion for the twelve months ended December 31, 1990. Convenience store sales of $7.7 billion accounted for 92% of net sales. Same-store merchandise sales increased .83% in 1990 while 7-Eleven experienced an annualized inflation rate of 3.8% for the same period, resulting in negative real growth of 2.8%. 7-Eleven has experienced negative real growth in merchandise sales since early 1989 primarily due to competitive pressures in the convenience retailing industry. Gasoline sales per store month increased 17.3% due to higher average retail prices and a continuing shift in the sales mix to higher grades of gasoline.

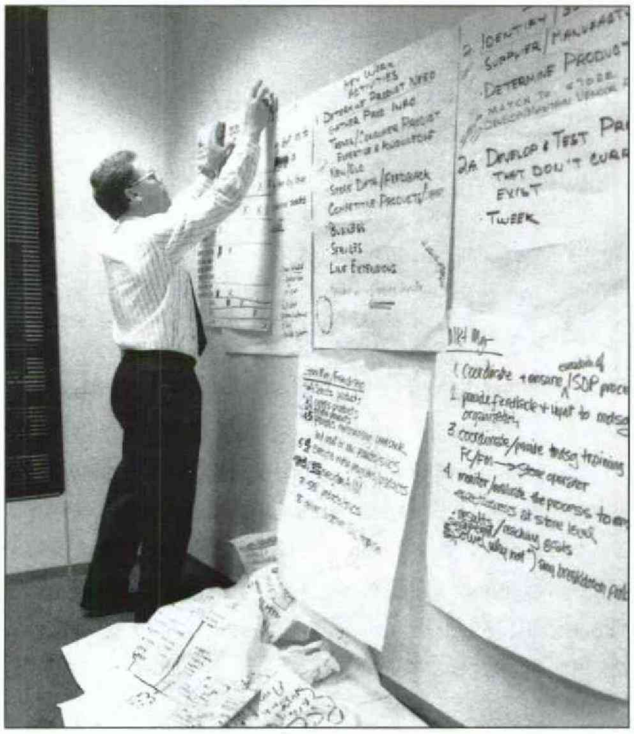
Other income of $62.4 million in 1990 consisted primarily of royalties from area licensees and interest income.

The Company's consolidated gross margin (gross profit divided by sales) was 20.2%. The convenience stores' merchandise gross margin increased 0.59 percentage points primarily due to continued promotional emphasis on higher-margin products and pricing strategies that better reflected market opportunities. Gross profit on retail gasoline sales was 11.6 cents per gallon in 1990, compared to 11.5 cents in 1989.

Selling, general and administrative expenses increased $57.3 million in 1990. The Company recognized $31 million in expenses related to fees for the Restructuring, other restructuring alternatives that were considered by the Company, and bankruptcy-related fees. In addition, franchisees' gross profit increased by $20 million. Franchisees' gross profit is the expense associated with the franchisees' share of the gross profit generated by franchised stores. As a result, the ratio of selling, general and administrative expenses to sales was 19.94%, an increase of .52 percentage points from the same period in 1989.

The Company's total interest expense decreased $112.7 million during 1990 as compared with 1989 primarily due to lower debt balances under the bank Term Loans and the reduced borrowings under the revolving credit facility under the Credit Agreement.

PICTURED DURING A WORK SESSION OF THE SPECIAL MERCHANDISING ORGANIZATION ACTION GROUP ARE (L.) MIKE ROEMER AND STEVE LEROY, VICE PRESIDENTS OF THE CENTRAL AND ATLANTIC REGIONS, 7-ELEVEN STORES, RESPECTIVELY.



JOHN HARRIS, FLORIDA DIVISION GENERAL MANAGER, KEEPS TRACK OF PROGRESS MADE BY THE SPECIAL MERCHANDISING ORGANIZATION ACTION GROUP. TWENTY-SIX PEOPLE FROM 7-ELEVEN REGIONS AND DIVISIONS, THE SOUTHLAND DISTRIBUTION CENTERS AND THE CORPORATE MERCHANDISING DEPARTMENT WORKED TOGETHER TO PRODUCE RECOMMENDATIONS, WHICH BEGAN TO BE IMPLEMENTED LESS THAN A MONTH LATER.

In addition, the Company did not make interest payments on the Old Debt Securities on June 15 and December 15, 1990; however, the Company continued to accrue for such interest through the date of the bankruptcy filing but stopped such accruals at that time. The Company would otherwise have recognized approximately $55 million of additional interest expense in the fourth quarter. Interest on the New Debt Securities, pursuant to the terms of the plan of reorganization, however, began to accrue as of June 15, 1990, at the new interest rates, and was paid on June 15, 1991.

At December 31, 1990, approximately 73% of the Company's bank term debt was hedged against future interest rate increases. In 1990, the weighted average interest rate of the Company's Term Loan indebtedness under the Credit Agreement, including the cost of hedging and interest swaps, was 11.7%. The net cost of hedging was $5.0 million higher than interest expense would have been without hedging.

In 1990, the Company recorded a tax benefit of $128.5 million related to losses from continuing operations and an extraordinary item of $52.0 million representing the tax benefit from the utilization of net operating loss carryforwards. These items offset most of the taxable gain on the sale of Citgo.

In 1990, the Company adopted SFAS No. 106 , "Employers' Accounting for Postretirement Benefits other than Pensions." The cumulative effect of this change for years prior to 1990 was a $27.2 million reduction in earnings.

As a result of the factors described above, the Company's net loss was $276.6 million in 1990.

Results of Operations - Twelve Months Ended December 31, 1989

The Company recorded net sales of $8.3 billion in 1989. Convenience store sales of $7.6 billion accounted for 92% of net sales. Same-store merchandise sales increased 4.8%, while 7-Eleven experienced inflation of 7.7% for the same period. 7-Eleven experienced negative real growth in merchandise sales throughout 1989 due to competitive pressures in the convenience retailing industry and the effect of inclement weather in some of the Company's major market areas. Gasoline sales per store month increased 7.6% due to higher average retail prices and a shift in the sales mix to higher grades of gasoline.

Other income of $77.0 million in 1989 consisted primarily of gains from fixed asset sales and royalties from area licensees. The $36.7 million increase in other income was mainly due to gains on the sale of fixed assets.

The Company's consolidated gross margin (gross profit divided by sales) in 1989 was 20.91%. The convenience stores' merchandise gross margin decreased .15 percentage points, as compared to 1988, due to competitive pressure from traditional and oil company convenience stores, as well as other outlets. Gross profit on gasoline was 11.5 cents per gallon in 1989 compared to 11.4 cents in 1988.

Selling, general and administrative expenses increased $64.0 million in 1989 primarily as a result of a $21.0 million increase in advertising expense and a $28.0 million increase in franchisees' gross profit. Franchisees' gross profit is the expense associated with the franchisees' share of the gross profit generated by franchised stores. The ratio of selling, general and administrative expenses to sales was 19.42%.

The Company's interest expense increased $12.0 million in 1989, as compared to 1988, because interest related to Cityplace was expensed in 1989 whereas such interest was capitalized in prior years. Of the $572.2 million of interest expense recorded in 1989, $157.2 million was noncash interest.

At December 31, 1989, approximately 56% of the Company's Term Loan indebtedness under the Credit Agreement was hedged against future interest rate increases. In 1989, the weighted average interest rate of the Company's indebtedness under the Credit Agreement, including the cost of hedging and interest swaps, was 12%. The net cost of hedging was $2 million above what the interest expense would have been without hedging.

The Company's net loss for the year included $70.5 million from its 50% equity in Citgo's net earnings compared to $69.0 million in 1988. During 1989 the Company received $55.0 million in cash dividends from Citgo. As a result of the Company's divestiture of its remaining 50% equity interest in Citgo in January 1990, the equity in earnings of Citgo was classified as earnings

from discontinued operations in the Company's Consolidated Financial Statements. The $1.1 million net loss on the disposal of Citgo that was recognized in 1989 represents $661.5 million in gross proceeds reduced by selling expenses, the book value of the Company's investment in Citgo, and the expected tax liability associated with the gain on the sale.

The Company recorded tax benefits from continuing operations of $12 million in 1989 compared to $111.9 million in 1988. In 1988, the Company was able to realize the full benefit of its taxable loss, whereas in 1989, only a portion of the 1989 loss could be utilized in recovering available taxes from prior years.

In 1989 the Company recorded a noncash extraordinary charge of $56.0 million as a result of the exchange of its 18% Junior Subordinated Discount Debentures for 13-1/2% Senior Extendible Reset Notes.

As a result of lower-than-projected earnings and sales, the Company determined that the value of the excess of cost over fair value of net assets acquired (that was recorded at the time of the Merger) could not be realized and was therefore impaired. Accordingly, the Company wrote off, as of December 31, 1989, the remaining balance of $947.0 million of excess of cost over fair value of net assets acquired.

As a result of the factors described above, the Company's net loss for the year was $1.3 billion.

The Company paid dividends on its Redeemable Preferred Stock through the issuance of additional shares of Redeemable Preferred Stock with an aggregate market value at the time of issuance of $12.6 million and recorded $8.2 million of accretion to redemption value of the Redeemable Preferred Stock.

NEW MERCHANDISING JOB RESPONSIBILITIES AND REPORTING RELATIONSHIPS WILL MAKE IT EASIER TO INTRODUCE NEW PRODUCTS AND SERVICES INTO 7-ELEVEN STORES MORE RAPIDLY AND COST EFFECTIVELY. SHOWN WORKING ON THE ORGANIZATION CHART ARE (L. TO R.) MIKE CUTTER, REGIONAL MERCHANDISE MANAGER FOR THE CENTRAL REGION; STEVE KRUMHOLZ, SENIOR VICE PRESIDENT, 7-ELEVEN STORES OPERATIONS; DICK DOLE, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER; AND WENDY BARTH, PRODUCT DIRECTOR, PERISHABLE FOODS.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per-Share Data)	December 31 1991	December 31 1990
ASSETS		
Current assets:		
Cash and cash equivalents	$ 238,561	$ 108,294
Accounts and notes receivable	125,631	161,778
Inventories	227,215	301,756
Deposits and prepaid expenses	48,582	64,075
Total current assets	639,989	635,903
Property, plant and equipment	1,575,614	1,715,501
Other assets	380,184	447,638
	$ 2,595,787	$ 2,799,042
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$ 594,200	$ 766,327
Income taxes	5,230	9,145
Long-term debt due within one year	168,246	3,522,647
Total current liabilities	767,676	4,298,119
Deferred credits and other liabilities	138,655	142,315
Long-term debt	2,873,603	182,536
Redeemable preferred stock, 15% cumulative exchangeable preferred stock, series one	—	148,496
Redeemable common stock purchase warrants	26,136	26,136
Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock, $.0001 par value; 1,000,000,000 shares authorized, 410,022,481 and 20,480,844 shares issued and outstanding	41	2
Additional capital	599,588	20,364
Accumulated deficit	(1,809,912)	(2,018,926)
Total shareholders' equity (deficit)	(1,210,283)	(1,998,560)
	$ 2,595,787	$ 2,799,042

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Per-Share Data)	1991	1990	1989
	Years Ended December 31		
Revenues:			
Net sales (including $443,669, $372,975 and $358,737 in excise taxes)	$8,009,507	$8,347,681	$ 8,274,921
Other income	66,505	62,375	76,962
	8,076,012	8,410,056	8,351,883
Cost of sales and expenses:			
Cost of goods sold	6,352,855	6,661,273	6,544,237
Selling, general and administrative expenses	1,585,804	1,664,586	1,607,312
Loss on assets sold	–	41,000	–
Write-off of excess of cost over fair value of net assets acquired	–	–	946,974
Interest expense	189,290	459,500	572,248
Contributions to Employees' Savings and Profit Sharing Plan	14,411	13,653	13,372
	8,142,360	8,840,012	9,684,143
Loss from continuing operations before income taxes	(66,348)	(429,956)	(1,332,260)
Income taxes (benefit)	8,000	(128,459)	(11,984)
Loss from continuing operations	(74,348)	(301,497)	(1,320,276)
Discontinued operation:			
Equity in earnings of Citgo	–	–	70,480
Loss on disposal of equity interest in Citgo	–	–	(1,070)
Earnings from discontinued operation	–	–	69,410
Loss before extraordinary items and cumulative effect of accounting change for postretirement medical benefits	(74,348)	(301,497)	(1,250,866)
Extraordinary items:			
Gain on debt restructuring	156,824	–	–
Tax benefits from utilization of net operating loss carryforwards	–	52,040	–
Charge resulting from debt exchange	–	–	(56,047)
Total extraordinary items	156,824	52,040	(56,047)
Cumulative effect of accounting change for postretirement medical benefits	–	(27,163)	–
Net earnings (loss)	82,476	(276,620)	(1,306,913)
Accretion to redemption value of redeemable preferred stock	–	(7,744)	(8,257)
Redeemable preferred stock dividends	–	(1,011)	(12,634)
Net earnings (loss) applicable to common shares	$ 82,476	$ (285,375)	$(1,327,804)
Earnings (loss) per common share (primary and fully diluted):			
From continuing operations	$(.22)	$(15.14)	$(65.41)
Before extraordinary items and cumulative effect of accounting change	$(.22)	$(15.14)	$(62.02)
Extraordinary items	.46	2.54	(2.74)
Cumulative effect of accounting change	–	(1.33)	–
Net earnings (loss)	$ .24	$(13.93)	$(64.76)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

(Dollars in Thousands)	Years Ended December 31 1991	1990	1989
Common stock:			
Balance, beginning of year	$ 2	$ 2	$ 2
Issued in Restructuring	39	–	–
Balance, end of year	41	2	2
Additional capital:			
Balance, beginning of year	20,364	20,366	20,366
Issued in Restructuring	579,224	–	–
Other	–	(2)	–
Balance, end of year	599,588	20,364	20,366
Accumulated deficit:			
Balance, beginning of year	(2,018,926)	(1,736,179)	(407,927)
Net earnings (loss)	82,476	(276,620)	(1,306,913)
Cancellation of redeemable preferred stock in Restructuring	127,788	–	–
Dividends on redeemable preferred stock	–	(1,011)	(12,634)
Accretion to redemption value of redeemable preferred stock	–	(7,744)	(8,257)
Foreign currency translation adjustment	(1,250)	2,628	(448)
Balance, end of year	(1,809,912)	(2,018,926)	(1,736,179)
Total shareholders' equity (deficit)	$(1,210,283)	$(1,998,560)	$(1,715,811)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	Years Ended December 31 1991	1990	1989
Cash flows from operating activities:			
Loss from continuing operations	$ (74,348)	$ (301,497)	$ (1,320,276)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:			
Depreciation and amortization of property, plant and equipment	179,855	206,995	230,155
Other amortization	20,289	20,578	46,498
Noncash interest expense	17,508	152,490	157,209
Accrued interest not paid due to the Restructuring	–	113,029	5,786
Noncash charge resulting from the write-off of excess of cost over fair value of net assets acquired	–	–	946,974
Other noncash expense (income)	12,608	6,610	(4,124)
Net loss (gain) on retirement of property, plant and equipment	15,304	4,753	(25,349)
Loss on assets sold	–	41,000	–
Decrease (increase) in accounts and notes receivable	34,884	1,326	(14,759)
Decrease (increase) in inventories	74,541	(25,644)	151,986
Increase in deposits and prepaid expenses	(32,449)	(40,326)	(338)
Decrease (increase) in other assets	2,310	1,837	(666)
(Decrease) increase in accounts payable and other liabilities	(92,881)	(69,077)	30,688
(Decrease) increase in income taxes	(3,687)	(117,027)	29,641
Net cash provided by (used in) operating activities	153,934	(4,953)	233,425
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(69,873)	(39,624)	(105,193)
Proceeds from sale of property, plant and equipment	16,015	48,567	144,392
Net cash flow from currency exchange principal transactions	(4,353)	(3,688)	(3,190)
Payments received on notes	1,174	9,331	1,806
Cash paid for other investments	(1,290)	(5,472)	(5,416)
Proceeds from sale of divested assets	–	24,000	–
Cash generated from Citgo, net of tax	–	1,649	53,252
Proceeds from sale of equity interest in Citgo	–	661,500	–
Net cash (used in) provided by investing activities	(58,327)	696,263	85,651
Cash flows from financing activities:			
Proceeds from revolving credit facilities	478,955	3,139,912	7,389,484
Payments under revolving credit facilities	(546,070)	(3,286,527)	(7,318,670)
Proceeds from issuance of long-term debt	–	25,000	162
Principal payments under long-term debt agreements	(328,236)	(456,646)	(397,842)
Proceeds from issuance of stock	430,011	–	–
Debt issuance costs	–	(12,800)	(5,948)
Net cash provided by (used in) financing activities	34,660	(591,061)	(332,814)
Net increase (decrease) in cash and cash equivalents	130,267	100,249	(13,738)
Cash and cash equivalents at beginning of year	108,294	8,045	21,783
Cash and cash equivalents at end of year	$ 238,561	$ 108,294	$ 8,045
Related disclosures for cash flow reporting:			
Interest paid, excluding SFAS 15 Interest	$ (171,048)	$ (197,192)	$ (411,227)
Net income taxes (paid) refunded	$ (20,350)	$ 24,847	$ 54,242

See notes to consolidated financial statements.

1. RESTRUCTURING

On December 15, 1987, The Southland Corporation (referred to collectively with its subsidiaries as the Company) was acquired by JT Acquisition Corporation pursuant to a $4.9 billion leveraged buyout transaction and merger into the Company, with the Company continuing as the surviving corporation (the Merger). Subsequent to the Merger and through 1990, the Company sustained significant recurring losses. In addition, during 1990, the Company was in default under indentures governing certain of its debt securities and the bank Credit Agreement (see Note 9). As a result, substantially all of the Company's long-term debt was classified as current at December 31, 1990. On October 24, 1990, The Southland Corporation filed a Voluntary Petition for Relief under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court (the Court). None of The Southland Corporation's subsidiaries were part of the Chapter 11 filing. The Southland Corporation also filed the Debtor's Plan of Reorganization (the Plan).

The significant features of the Plan, which occurred concurrently, consisted of a cash infusion of $430,000,000 from the sale of 286,634,619 shares of newly issued common stock, representing 70% of the Company's outstanding shares, to IYG Holding Company (the Purchaser), renegotiations of the bank Credit Agreement (see Note 9), an agreement to refinance the Cityplace notes in 1995 (see Note 9) and the cancellation of certain classes of old debt (the Old Debt Securities) and Redeemable Preferred Stock (collectively, the Old Securities) and the issuance of new debt (the New Debt Securities) and/or other consideration (collectively, the Restructuring) (see Note 9). As a result of the Restructuring, the Company is a majority-owned subsidiary of the Purchaser, which is jointly owned by Ito-Yokado Co., Ltd. and Seven-Eleven Japan Co., Ltd.

On February 21, 1991, based upon receipt of the required creditor acceptances under the Bankruptcy Code, the Plan was confirmed by the Court and the Restructuring was consummated on March 5, 1991. The following table shows the beneficial ownership of the Company's common stock as of December 31, 1990, and after consummation of the Restructuring on March 5, 1991.

	Outstanding Shares at December 31, 1990	Outstanding Shares at March 5, 1991
Existing Shareholders	20,480,844	20,480,844
Purchaser	—	286,634,619
Holders of Old Securities	—	102,501,226
	20,480,844	409,616,689

The existing shareholders consist primarily of the Thompson family and their affiliates. Initially, holders of the Old Securities collectively received approximately 25% ownership of the Company; however, the warrants issued in connection with the Restructuring (Thompson Warrants) are exercisable from June 5, 1991, through February 23, 1996, for $1.75 per share against approximately one-half of the Thompsons' ownership.

The cancellation of the Old Debt Securities and the issuance of the New Debt Securities and common stock to the holders of such Old Debt Securities resulted in an extraordinary gain in 1991 of $156,824,000. A portion of the gain is attributable to interest accrued on the Old Debt Securities that was not paid (see Note 8) and was partially offset by the write-off of deferred costs associated with the Old Debt Securities, the costs incurred to issue the New Debt Securities and a cash payment made to the holders of the Senior Extendible Reset Notes.

For each share of Redeemable Preferred Stock cancelled, the holders of such stock received one share of common stock, which resulted in a decrease in the accumulated deficit of $127,788,000.

The balance sheet effects of noncash restructuring transactions, which are not reflected in the Consolidated Statement of Cash Flows for the year ended December 31, 1991, are as follows (dollars in thousands):

Decrease in deposits and prepaid expenses	$ 19,186
Decrease in other assets	$ 50,289
Decrease in accounts payable and accrued expenses	$118,815
Net decrease in long-term debt	$280,951
Decrease in Redeemable Preferred Stock	$148,496
Increase in common stock and additional capital	$153,752
Decrease in accumulated deficit	$325,035

2. ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of The Southland Corporation and its subsidiaries. Intercompany transactions and account balances are eliminated.

Revenues

Net sales are comprised of sales of products and services, including sales by stores operated by franchisees of $3,065,542,000, $3,065,776,000 and $3,058,748,000 from 3,045, 3,058 and 3,113 stores for the years ended December 31, 1991, 1990 and 1989, respectively. There is no significant difference in the profitability of a Company-operated and a franchisee-operated store.

Sales by stores operated under domestic and foreign area license agreements are not included in consolidated revenues. All fees or royalties arising from such agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

Other income is primarily comprised of area license royalties, interest on cash equivalents and deposits, and net gains from sale of assets.

Cost of Goods Sold

Cost of goods sold includes buying and occupancy expenses.

Cash and Cash Equivalents

Cash and cash equivalents include temporary cash investments of $250,414,000 and $16,575,000 at December 31, 1991 and 1990, respectively, stated at cost, which approximates market. The Company considers all highly liquid investment instruments purchased with a remaining maturity of three months or less to be cash equivalents.

Inventories

Inventories are generally stated at the lower of cost, using the LIFO method, or market.

Depreciation and Amortization

Depreciation of buildings and equipment is based upon the estimated useful lives of these assets using the straight-line method. Amortization of capital leases, improvements to leased properties

TOM WHITING (CENTER), NATIONAL MERCHANDISING MANAGER, HEADS THE NATIONAL MARKETING FORUM, A GROUP OF CORPORATE MERCHANDISING MANAGERS AND 7-ELEVEN FRANCHISEES THAT MEET QUARTERLY TO DISCUSS STRATEGIES AND TACTICS. ALSO PICTURED IS JOHNNY JOHNSON, 7-ELEVEN FRANCHISEE FROM BALTIMORE, MD.

MEMBERS OF THE NATIONAL MARKETING FORUM DISCUSS A RE-DESIGNED CIGARETTE CARTON MERCHANDISER. PICTURED (L. TO R.) ARE RUSS SPEELHOFFER, FRANCHISEE, NORRISTOWN, PA.; MARK HAGEN, CORE GROUP MANAGER, CORPORATE MERCHANDISING DEPARTMENT; DIANE CONLAN, FRANCHISEE, SAN DIEGO, CALIF.; ALLI ENDERS, FRANCHISEE, BALTIMORE CITY, MD.; AND JIM POPE, FRANCHISEE, BELLINGHAM, WASH.

and favorable leaseholds is based upon the remaining terms of the leases or the estimated useful lives, whichever is shorter.

The fair value of future royalty payments from Japanese and other foreign and domestic licensees was recorded as a result of the application of purchase accounting pursuant to the Merger. The value of the royalties is being amortized using the straight-line method over 20 years, which is less than the estimated lives of the various royalty agreements, the majority of which are perpetual. Income is being recognized for royalty fees earned.

Excess of Cost Over Fair Value of Net Assets Acquired

In accounting for the Merger under the purchase method, the Company recorded at cost the excess of the purchase price over the fair value of the Company's net assets acquired. As of December 31, 1989, the unamortized balance of the excess of cost over fair value of net assets acquired was written off as a result of the existence of substantial doubt regarding future realization of its value.

Income Taxes

Income taxes are the estimated amount of federal and state income taxes on earnings reported in the consolidated statements of operations. Deferred taxes and deferred tax benefits are provided for and are a result of timing differences between financial and tax reporting.

Leases

Capital leases are recorded at the inception of the lease at the lower of the discounted present value of future minimum lease payments or the fair value of the property.

For closed leased stores, provision is made on a current basis if anticipated expenses are in excess of expected sublease rentals.

Business Segment

The Company operates in a single business segment–the operating and franchising of convenience food stores, primarily under the 7-Eleven name.

Postretirement Benefits

During 1990, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company previously accounted for postretirement benefits on a cash basis (see Note 13).

3. ACCOUNTS AND NOTES RECEIVABLE

	December 31	
(Dollars in Thousands)	1991	1990
Notes receivable (net of long-term portion of $7,983 and $7,067)	$ 4,590	$ 5,821
Trade accounts receivable	79,886	98,033
Franchisee accounts receivable	54,552	69,346
	139,028	173,200
Allowance for doubtful accounts	(13,397)	(11,422)
	$125,631	$161,778

4. INVENTORIES

At December 31, 1991 and 1990, inventories stated on the LIFO basis were $164,040,000 and $236,380,000, respectively, which is less than replacement cost by approximately $55,757,000 and $62,998,000, respectively. At December 31, 1991, inventories were reduced resulting in a liquidation of LIFO inventory layers recorded at costs that were lower than the costs of current purchases. The effect of this reduction was to decrease cost of goods sold by approximately $13,000,000 during 1991.

At December 31, 1991 and 1990, as a result of the application of purchase accounting, LIFO inventories for financial statement purposes exceeded the tax basis of those inventories by $53,502,774 and $68,937,997, respectively. As a result of the application of purchase accounting to inventories, taxable income for federal income tax purposes was less than (exceeded) net income for financial accounting purposes by $(15,435,223), $420,534 and $(16,071,782) for the years ended December 31, 1991, 1990 and 1989, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

(Dollars in Thousands)	December 31 1991	1990
Cost:		
Land	$ 591,756	$ 599,905
Buildings and leaseholds	1,289,131	1,294,673
Machinery and equipment	613,682	600,684
Construction in process	13,495	8,828
	2,508,064	2,504,090
Accumulated depreciation and amortization	(932,450)	(788,589)
	$1,575,614	$1,715,501

6. DIVESTED ASSETS & DISCONTINUED OPERATIONS

On December 31, 1990, the Company sold its Cityplace real estate development excluding Cityplace Center East, which is its corporate office facility. The assets sold consisted of approximately 140 acres of primarily undeveloped land surrounding Cityplace Center East, located just north of the Dallas central business district. Sale proceeds were $24,000,000, and a loss of $41,000,000 was recognized in consolidated operating results for the year ended December 31, 1990.

On January 31, 1990, the Company sold its 50% interest in the common stock of Citgo Petroleum Corporation (Citgo) to an affiliate of Petroleos de Venezuela, S.A., the state-owned oil company of Venezuela, for $661,500,000 in cash. The Company recognized a net loss of $1,070,000 in 1989, calculated as net proceeds less the book value of the investment and taxes of $205,813,000 that were recorded in January 1990. The Company received cash dividends from Citgo of $5,000,000 and $55,000,000 in 1990 and 1989, respectively.

The Company entered into a product purchase agreement with Citgo in 1986, which will expire in 2006, to buy specified quantities of gasoline at market prices. These prices are determined pursuant to a formula based on the prices posted by gasoline wholesalers in the various market areas where the Company purchases gasoline from Citgo. Minimum required annual purchases under this agreement are generally the lesser of 750,000,000 gallons or 35% of gasoline purchased by the Company for retail sale. The Company has exceeded the minimum required annual purchases both in the current year and in previous years. The Company does not anticipate any problems in achieving the minimum required annual purchase levels for the future.

7. OTHER ASSETS

(Dollars in Thousands)	December 31 1991	1990
Japanese license royalty (net of accumulated amortization of $68,926 and $52,910)	$249,575	$265,590
Other license royalties (net of accumulated amortization of $12,380 and $9,524)	44,389	47,806
Deferred debt issuance costs (net of accumulated amortization of $60,175 and $73,771)	11,564	69,003
Other (net of accumulated amortization of $4,449 and $5,453)	74,656	65,239
	$380,184	$447,638

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in Thousands)	December 31 1991	1990
Trade accounts payable	$226,955	$224,025
Accrued insurance	101,167	95,318
Accrued payroll	75,906	90,956
Accrued taxes	52,919	75,329
Accrued interest	26,402	144,656
Other	110,851	136,043
	$594,200	$766,327

Accrued interest at December 31, 1990, includes $118,815,000 relating to the Old Debt Securities; such interest was not paid and was a component of the extraordinary gain in the Restructuring (see Note 1).

Other includes accounts payable to The Southland Corporation Employees' Savings and Profit Sharing Plan (see Note 13) of $17,288,000 and $16,524,000 as of December 31, 1991 and 1990, respectively. Company contributions represented $14,135,000 and $13,419,000, respectively, of the total, and the remaining balances were primarily contingent rent payables.

9. DEBT

(Dollars in Thousands)	December 31 1991	1990
Senior Term Loan due 1995	$ 729,919	$ 868,669
Revolving credit facility	—	90,180
12% Senior Notes due 1996	400,962	—
5% First Priority Senior Subordinated Debentures due 2003	683,344	—
4-1/2% Second Priority Senior Subordinated Debentures (Series A) due 2004	322,541	—
4% Second Priority Senior Subordinated Debentures (Series B) due 2004	28,258	—
12% Second Priority Senior Subordinated Debentures (Series C) due 2009	67,540	—
13-1/2% Senior Extendible Reset Notes due 1995	—	589,184
15-3/4% Senior Subordinated Notes due 1997	—	350,000
16-1/2% Senior Subordinated Discount Notes due 1997	—	393,404
16-3/4% Subordinated Debentures due 2002	—	500,000
18% Junior Subordinated Discount Debentures due 2007	—	48,255
6-1/4% Yen Loan	305,441	316,362
7-7/8% Cityplace Notes due 1995	283,304	281,545
12% Canadian Notes due 1992	34,284	43,154
Canadian revolving credit facility	7,833	—
Real estate and equipment notes and other debt with maturities through 2004 and a weighted average effective interest rate of 9.5%	26,311	31,280
Capital lease obligations	152,112	168,150
Ito-Yokado Term Loan	—	25,000
	3,041,849	3,705,183
Less long-term debt due within one year	168,246	3,522,647
	$2,873,603	$ 182,536

Bank Credit Agreement

At the time of the Merger in 1987, the Company became obligated under a Credit Agreement that presently includes a Senior Term Loan and a revolving credit facility. At December 31, 1991, the outstanding balance of the Senior Term Loan was $729,919,000, and there were no borrowings outstanding under the revolving credit facility.

The Credit Agreement contains numerous financial and operating covenants requiring, among other things, the maintenance of certain financial ratios, including interest coverage, fixed-charge coverage and total debt. In addition, the Credit Agreement requires the attainment of certain levels of earnings before interest, income taxes and depreciation and amortization (EBITDA).

The Credit Agreement also contains various covenants which, among other things, (a) limit the Company's ability to incur indebtedness or other liabilities other than under the Credit Agreement, (b) restrict the Company's ability to engage in leasing transactions, (c) limit future capital expenditures and (d) restrict the Company's ability to pay cash dividends, redeem or prepay principal and interest on any subordinated debt and certain senior debt and repurchase redeemable common stock purchase warrants. The banks have received under the Credit Agreement a security interest in all of the assets of the Company, with the exception of certain specified property.

Interest on the Senior Term Loan and the revolving credit facility is generally payable quarterly and is based on a variable rate equal to the administrative agent bank's base rate plus 1.5% per year or, at the Company's option, at a rate equal to a reserve-adjusted Eurodollar rate plus 2.5% per year. The weighted average rate of bank debt outstanding at December 31, 1991, was 7.7%.

Upon consummation of the Restructuring, all events of default under the Credit Agreement were cured and the maturities of the Senior Term Loan, as well as the maturities of all other indebtedness containing cross-acceleration and cross-default provisions, were reinstated. Also on this date, the Company repaid

all outstanding borrowings under the revolving credit facility and paid $18,750,000 on the Senior Term Loan, which represented the scheduled quarterly payment it failed to make in December 1990 due to its status in bankruptcy.

In December 1991, certain covenants in the Credit Agreement were amended so that the Company remained in compliance with that agreement during the fourth quarter of 1991. As a result of the amendment, on December 23, 1991, the Company made a $75,000,000 prepayment of the Senior Term Loan.

The Senior Term Loan must be fully paid on September 30, 1995. The $75,000,000 prepayment eliminated the March 31 and June 30, 1992, scheduled quarterly payments and reduced the September 30, 1992, scheduled quarterly payment to $3,750,000. The December 31, 1992, scheduled quarterly payment remains unchanged at $26,250,000. Scheduled quarterly payments for years 1993 and 1994 are $50,000,000 and $75,000,000, respectively. In 1995, scheduled quarterly payments are $75,000,000 for the first two quarters and $49,919,000 on September 30.

The Company expects its EBITDA to be below the levels previously forecasted, which would result in violations of certain covenants in the Credit Agreement. On March 26, 1992, certain covenants for 1992 and the first quarter of 1993 were amended, and therefore the Company believes it will be able to remain in compliance with the Credit Agreement. The Company has

SOUTHLAND CONTINUES TO WORK ON WAYS TO INCREASE INPUT FROM ITS FRANCHISEES AND STORE MANAGERS INTO DECISION-MAKING AT VARIOUS LEVELS OF MANAGEMENT. PICTURED AT A QUARTERLY NATIONAL MARKETING FORUM MEETING ARE (L.) DAVE DRAPINSKI AND GREG KALOUSTIAN, 7-ELEVEN FRANCHISEES FROM DETROIT, MICH., AND MANORVILLE, N.Y., RESPECTIVELY.

TED POGGI (L.), A FRANCHISEE FROM MORRIS PLAINS, N.J., AND CHAIRMAN OF THE 7-ELEVEN FRANCHISE OWNERS ASSOCIATION, DIANE CONLAN, A FRANCHISEE FROM SAN DIEGO, CALIF., AND MIKE LYNCH, A FRANCHISEE FROM MONTEREY, CALIF., ALL SERVE ON THE 7-ELEVEN NATIONAL MARKETING FORUM.

requested that its lenders agree to extend the revolving credit facility under the Credit Agreement beyond its December 31, 1992, expiration. In addition, the Company intends to arrange a new financing with some assistance from Ito-Yokado. The Company expects to utilize the proceeds from such new financing and some of its cash to prepay a significant portion of the Senior Term Loan.

The Company has entered into interest rate contracts through which it is protected against increases in short-term interest rates for approximately 53% of the outstanding amount of the Senior Term Loan at December 31, 1991. These contracts have remaining terms of less than one year and include interest rate exchange agreements that fix the interest rate on $265,000,000 of floating rate debt at rates averaging 9.3% and agreements that provide for payments to be made to the Company to cover incremental interest costs on $70,000,000 if the three-month LIBOR exceeds 9% and on $52,000,000 if the rate exceeds 10%. At December 31, 1991, the Company's obligations under these agreements exceed amounts receivable, and, consequently, there is no exposure to loss in the event of nonperformance by the counterparties to the agreements.

The revolving credit facility currently makes available borrowings and letters of credit totaling a maximum of $275,000,000 until its expiration on December 31, 1992. At that time, all the then outstanding letters of credit may need to be replaced, and all other amounts then outstanding will be due and payable in full. At December 31, 1991, $113,106,000 in letters of credit was outstanding. A fee of 2% per year on the outstanding amount of letters of credit is required to be paid. A 1/2% per year commitment fee on unadvanced funds, which for purposes of this calculation include outstanding letters of credit, is payable quarterly.

Restructuring of Notes & Debentures

In accordance with the provisions of the Plan, upon consummation of the Restructuring, the Company issued five series of notes (New Debt Securities), plus common stock and cash, and cancelled the Old Debt Securities (see Note 1). The cancellation of certain classes of Old Debt Securities and the issuance of consideration are presented in the following table.

For Each $1,000 Principal Amount of Old Debt Securities:	Holders Received New Debt Securities & Other Consideration:
13-1/2% Senior Extendible Reset Notes due December 15, 1995	$475 principal amount of 12% Senior Notes due December 15, 1996, 86.5 shares of common stock, $57 in cash and one Thompson Warrant
15-3/4% Senior Subordinated Notes due December 15, 1997	$650 principal amount of 5% First Priority Senior Subordinated Debentures due December 15, 2003, 40.5 shares of common stock and 8.2 Thompson Warrants
16-1/2% Senior Subordinated Discount Notes due December 15, 1997	$555 principal amount of 5% First Priority Senior Subordinated Debentures due December 15, 2003, 35 shares of common stock and 7.2 Thompson Warrants
16-3/4% Subordinated Debentures due December 15, 2002	At the holders' choice, either: (i) $500 principal amount of 4-1/2% Second Priority Senior Subordinated Debentures (Series A) due June 15, 2004, 28 shares of common stock and 6 Thompson Warrants or (ii) $250 principal amount of 12% Second Priority Senior Subordinated Debentures (Series C) due June 15, 2009, bearing interest at 9% per annum from June 15, 1990, through June 14, 1991, and thereafter through maturity at 12% per annum and 28 shares of common stock
18% Junior Subordinated Discount Debentures due December 15, 2007	$257 principal amount of 4% Second Priority Senior Subordinated Debentures (Series B) due June 15, 2004, 11 shares of common stock and 6 Thompson Warrants

In accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring," the New Debt Securities were recorded at an amount equal to the future undiscounted cash payments, both principal and interest. Accordingly, no interest expense will be recognized over the life of these securities, and cash interest payments (SFAS 15 Interest) will be charged against the recorded amount of such securities. Interest on all of the New Debt Securities is payable in cash semiannually on June 15 and December 15 of each year.

The 12% Senior Notes, due December 15, 1996, were recorded at $446,070,000 with an aggregate principal amount of $250,601,000. They may be redeemed at the option of the Company through December 15, 1992, at 102% of principal amount and thereafter until maturity at 100% of principal amount.

The 5% First Priority Senior Subordinated Debentures, due December 15, 2003, were recorded at $717,151,000 with an aggregate principal amount of $450,755,000. They are redeemable at any time at the Company's option at 100% of principal amount. Annual sinking fund payments of $27,045,000 are due each December 15, commencing 1996 through 2002. These payments retire 42% of the debt before maturity.

The Second Priority Senior Subordinated Debentures were issued in three series. Each series is redeemable at any time at the Company's option at 100% of principal amount:

The 4.5% Series A Debentures, due June 15, 2004, were recorded at $336,474,000, with an aggregate principal amount of $206,426,000.

The 4% Series B Debentures, due June 15, 2004, were recorded at $29,389,000, with an aggregate principal amount of $18,839,000.

The 12% Series C Debentures, due June 15, 2009, were recorded at $70,808,000, with an aggregate principal amount of $21,787,000. The Series C Debentures bear interest at 9% through June 14, 1991, and thereafter through maturity at 12%.

The New Debt Securities contain certain covenants which, among other things, (a) limit the payment of dividends and certain other restricted payments by both the Company and its subsidiaries, (b) require the purchase by the Company of the New Debt Securities at the option of the holder upon a change of control, (c) limit additional indebtedness, (d) limit future exchange offers, (e) limit the repayment of subordinated indebtedness, (f) require board approval of certain asset sales, (g) limit transactions with certain stockholders and affiliates and (h) limit consolidations, mergers and the conveyance of all or substantially all of the Company's assets.

The Senior Notes are unsecured senior obligations of the Company. The First and Second Priority Senior Subordinated Debentures are subordinate to the bank loans outstanding under the Credit Agreement, to the Senior Notes and to previously outstanding mortgages and notes that are backed by specific collateral or are general unsecured, unsubordinated obligations. The Second Priority Debentures are subordinate to the First Priority Debentures.

Debentures and Notes Issued at Time of Merger and Debt Exchange

At the time of the Merger, the Company issued four series of debentures and notes. In January 1989, 92% of the 18% Junior Subordinated Discount Debentures were exchanged for 13-1/2% Senior Extendible Reset Notes, resulting in a noncash extraordinary charge of $56,047,000. Upon consummation of the Restructuring, the Old Debt Securities were cancelled, and the holders thereof received New Debt Securities in accordance with the provisions of the Plan. The Company discontinued the payment of all interest as of December 15, 1989, on the Old Debt Securities; however, it continued to accrue such interest through October 23, 1990, at which time it filed for protection under Chapter 11 of the Bankruptcy Code.

Other Debt

In March 1988, the Company monetized its future royalty payments from the area licensee in Japan, Seven-Eleven Japan Co., Ltd., through a loan that is nonrecourse to the Company as to principal and interest. Recourse is limited to security in the Japan trademarks. The debt, payable in Japanese yen, was in the amount of 41 billion yen, or approximately $327,000,000, and is secured by a pledge of the future royalty payments (see Note 2).

The current interest rate of 6-1/4% will be reset after March 1998. Payment of the debt is required no later than March 2006 through future royalties from the Japanese licensee, and the Company believes it is remote that there will be any principal balance remaining at that date. The Company has hedged the loan by designating its future royalty receipts, during the term of the loan, to service the monthly interest and principal payments, thus offsetting the impact of future exchange rate fluctuations.

Cityplace Center East Corporation (CCEC), a subsidiary of the Company, issued $290,000,000 of notes in March 1987 to finance the construction of the headquarters tower, a parking garage and related facilities of the Cityplace Center development. These notes bear interest at 7-7/8%, payable semiannually on February 15 and August 15, with the principal amount due February 15, 1995. After the application of purchase accounting pursuant to the Merger in 1987, the effective interest rate on the notes for financial statement purposes is 9.0%. Principal and interest on the notes are payable by drawings under irrevocable letters of credit issued by The Sanwa Bank, Limited, Dallas Agency (Sanwa), which, along with the note holders, has been granted a lien on the property financed. The Company is occupying a portion of the building as its corporate headquarters and is attempting to sublease the rest. On December 21, 1990, the Company and CCEC entered into an amendment to the agreement with Sanwa, which became effective upon consummation of the Restructuring. It provides that, upon maturity of the notes in February 1995, the noteholders will draw on the letter of credit in payment of their principal. At such time, the Company has the option of either repaying the principal to Sanwa or extending the term of maturity ten years to March 1, 2005, with monthly payments of principal and interest based upon a 25-year amortization at 7-1/2%, with the remaining principal due upon maturity. As additional consideration, CCEC will pay to the lender any net sublease income it receives on the property and 60% of the proceeds less $275 million and permitted costs upon a sale or refinancing of the building.

In July 1985, Southland Canada, Inc., an indirect wholly owned subsidiary of the Company, issued 12% Canadian notes. The notes were redeemable at the option of the Company beginning in July 1990 until July 1991 at 101-1/2% of the principal amount and thereafter until maturity at 100-3/4% of principal. Payments of interest and principal are denominated in Canadian dollars. During 1991, the Company retired notes with an aggregate stated value of Canadian $10,400,000 (approximately U.S. $9,000,000). On July 25, 1992, these notes mature and all principal and interest outstanding will be due and payable in full.

During 1988, Southland Canada, Inc. entered into a revolving credit facility with a Canadian chartered bank. The facility provides bank financing of up to Canadian $25,000,000 (approximately U.S. $21,635,000), which will be reduced to Canadian $21,429,000 on June 30, 1992, and will be further reduced each year thereafter until June 30, 1998, when the facility will expire, and all amounts outstanding will be due and payable in full. At December 31, 1991, the Company had borrowings outstanding under this facility of Canadian $9,052,000 (approximately U.S. $7,833,000).

On October 22, 1990, prior to filing a Voluntary Petition for Relief under Chapter 11 of the Bankruptcy Code, The Southland Corporation entered into a credit agreement ($400 Million Credit Agreement) with various banks and financial institutions, which became effective upon approval by the Court. The Court authorized the Company to borrow or be issued letters of credit up to an aggregate of $400,000,000 in order to provide sufficient working capital and liquidity during the confirmation phase. At December 31, 1990, the Company had no borrowings under this facility. The $400 Million Credit Agreement expired upon consummation of the Restructuring, and all outstanding borrowings plus accrued interest were repaid.

In July 1990, the Company entered into a $25,000,000 term loan agreement with Ito-Yokado on which interest accrued at 8.9% and was payable monthly. When the term loan matured on

November 1, 1990, it could not be repaid due to the Company's status in bankruptcy. The loan plus all outstanding accrued interest was repaid on March 5, 1991.

As of December 31, 1991, long-term debt maturities, which include capital lease obligations and sinking fund requirements, as well as SFAS 15 Interest accounted for in the recorded amount of the New Debt Securities, are as follows (dollars in thousands):

1992	$ 168,246
1993	300,662
1994	409,166
1995	588,650
1996	387,413
Thereafter	1,187,712
	$ 3,041,849

10. REDEEMABLE PREFERRED STOCK

In connection with the Merger in 1987, the Company issued 9,911,656 shares of Junior Preferred Stock, 15% Cumulative Exchangeable Preferred Stock, Series One (the Redeemable Preferred Stock), with a $25 liquidation preference per share. Dividend payments made in additional shares through March 15, 1990, resulted in the issuance of 3,893,439 new shares, for a total of 13,805,095 shares. In accordance with the provisions of the Plan, upon consummation of the Restructuring, each share of Redeemable Preferred Stock was cancelled and holders thereof received one share of common stock and .073 Thompson Warrants.

11. PREFERRED STOCK

The Company has 5,000,000 shares of another class of preferred stock authorized for issuance. Any preferred stock issued will have such rights, powers and preferences as determined by the Company's Board of Directors.

12. REDEEMABLE COMMON STOCK PURCHASE WARRANTS

In connection with the Merger in 1987, the Company issued 26,135,682 redeemable common stock purchase warrants (the Warrants). Each Warrant entitles the holder to purchase one-tenth of one share of the Company's common stock at an exercise price of $1.00 upon the occurrence of certain specified events set forth in the agreement or to certain repurchase or other rights in lieu thereof. As of December 31, 1991, the Company had reserved 2,613,568 shares of common stock for the exercise of the Warrants.

The Warrants do not entitle the holders to receive dividends, vote, receive notice of any meetings of shareholders or otherwise have any rights as shareholders of the Company. The Warrants are recorded at the higher of proceeds received at time of issuance or market value, as determined on a quarterly basis.

While the Warrants were not exercisable as a result of the Restructuring, they may be exercised prior to December 16, 1992, if the Company (a) has a public offering of common stock or (b) is involved in certain business combinations. Otherwise, the Company is obligated to repurchase all outstanding Warrants by March 15, 1995, for cash or certain subordinated debt securities. The repurchase price will be the fair market value of the Warrants as separate securities, as determined by an independent financial expert chosen by the Company. Warrants not surrendered for exercise or repurchased as and when provided will expire and cease to exist in accordance with their terms.

The Company shall not be obligated to effect any repurchase that would constitute a violation or breach of applicable law or of the provisions of the Credit Agreement (see Note 9) or other loan agreements to which the Company is a party, in which case the Warrants will be exercisable. The Credit Agreement does not currently permit the Company to repurchase the Warrants for cash or debt securities of the Company.

13. EMPLOYEE BENEFIT PLANS

Employees' Savings and Profit Sharing Plan

Effective January 1, 1949, the Company adopted The Southland Corporation Employees' Savings and Profit Sharing Plan (Savings and Profit Sharing Plan) for the purpose of providing retirement benefits for eligible employees.

Contributions to the Savings and Profit Sharing Plan are made by both the participants and the Company. The Company contributes the greater of approximately 10% of its net earnings before contribution to the Savings and Profit Sharing Plan and federal income taxes or an amount determined by the Company's president. The Company contribution is generally allocated to the participants on the basis of their individual contribution, years of participation in the Savings and Profit Sharing Plan and age. The Company contributions for the years ended December 31, 1991, 1990 and 1989 were $14,411,000, $13,653,000 and $13,372,000, respectively.

Postretirement Insurance Benefits

The Company's group insurance plan (the Insurance Plan) provides postretirement medical and dental benefits for all retirees that meet certain criteria. Such criteria include continuous participation in the Insurance Plan ranging from 10 to 15 years depending on hire date, and the sum of age plus years of continuous service equal to at least 70. The Company contributes toward the cost of the Insurance Plan a fixed dollar amount per retiree based on age and number of dependents covered. All other costs and cost increases will be paid by the retirees. The Company continues to fund its cost on a cash basis; therefore, no plan assets have been accumulated.

During 1990, the Company adopted SFAS No. 106. In accordance with the provisions of SFAS No. 106, the Company calculated accumulated postretirement medical and dental benefit obligations of $27,163,000 as if effective January 1, 1990. The obligation represents the actuarial present value, at a 9% weighted average discount rate, of postretirement benefits to be paid to current employees and retirees based on services rendered. The accumulated postretirement benefit obligation of $27,163,000 was recorded as the cumulative effect of an accounting change in the consolidated statement of operations for the year ended December 31, 1990.

Net periodic postretirement benefit costs recognized in earnings for 1991 and 1990, excluding the cumulative effect of the accounting change in 1990, includes the following components:

(Dollars in Thousands)	1991	1990
Service cost	$1,298	$1,278
Interest cost	2,679	2,517
	$3,977	$3,795

Components of the accrual for postretirement medical and dental benefits recorded in the Company's consolidated balance sheet as of December 31 are:

(Dollars in Thousands)	1991	1990
Retirees	$13,263	$14,161
Active employees eligible to retire	6,390	5,863
Other active employees	10,623	8,448
	$30,276	$28,472

Equity Participation Plan

During 1988, the Company adopted The Southland Corporation Equity Participation Plan, which provides for the granting of both incentive options and nonstatutory options and the sale of convertible debentures to certain key employees and officers of the Company. The options were granted at the fair market value on the date of grant, which is the same as the conversion price provided in the debentures.

All options expire, and the debentures mature, not later than December 31, 1997. Options are not exercisable, and the debentures are not convertible, until the earlier of December 31, 1994, or until the occurrence of certain specified events set forth in the Plan. The Plan was amended to exclude the Restructuring from qualifying as such an event. In the aggregate, not more than 3,529,412 shares of common stock of the Company can be issued pursuant to the Plan. At December 31, 1991, there were options outstanding to acquire 2,075,013 shares, of which 1,954,513 were at $7.50 and 120,500 were at $7.70, and debentures outstanding that were convertible into 21,667 shares, none of which are currently exercisable or convertible.

Grant Stock Plan

During 1988, the Company adopted The Southland Corporation Grant Stock Plan. Under the provisions of the Plan, up to 750,000 shares of common stock are authorized to be issued to certain key employees and officers of the Company. The stock is fully vested upon the date of issuance. However, until there is a registered public offering of the Company's common stock, the shares granted must be voted in accordance with the Company's instructions and, subject to certain limited exceptions, ownership may not be transferred. The Company has the right to repurchase the stock from nonemployees for cash or notes at any time prior to the time that there is a registered public offering of the Company's stock. At December 31, 1991, 480,844 shares, which had been issued during 1988, were outstanding pursuant to the Plan. No shares were issued during 1991, 1990 and 1989. The shares available for issuance under the Equity Participation Plan are reduced by the number of shares issued under this Plan.

14. LEASES, COMMITMENTS AND CONTINGENCIES

Certain of the property, plant and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms from five to 10 years. The leases do not contain restrictions that have a material effect on the Company's operations.

The composition of capital leases reflected as property, plant and equipment in the consolidated balance sheets is as follows:

	December 31	
(Dollars in Thousands)	1991	1990
Buildings	$141,399	$150,870
Equipment	1,268	2,654
	142,667	153,524
Accumulated amortization	(79,830)	(70,032)
	$ 62,837	$ 83,492

The present value of future minimum lease payments for capital lease obligations is reflected in the consolidated balance sheets as long-term debt. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

(Dollars in Thousands)	Capital Leases	Operating Leases
1992	$ 29,519	$120,828
1993	28,595	115,571
1994	27,525	107,568
1995	26,123	98,254
1996	24,668	89,095
1997 and thereafter	143,154	412,281
Future minimum lease payments	279,584	$943,597
Estimated executory costs	(1,051)	
Amount representing imputed interest	(126,421)	
Present value of future minimum lease payments	$152,112	

Minimum noncancelable sublease rentals to be received in the future, which are not included above as offsets to future payments, total $25,626,000 for capital leases and $34,732,000 for operating leases.

Rent expense on operating leases in the years ended December 31, 1991, 1990 and 1989, totaled $140,294,000, $138,138,000 and $138,832,000, respectively, including contingent rentals of $9,738,000, $9,587,000 and $10,168,000, but reduced by sublease rentals of $8,270,000, $7,776,000 and $7,855,000. Contingent rent expense on capital leases in the years ended December 31, 1991, 1990 and 1989, was $5,067,000, $4,947,000 and $5,315,000, respectively. Contingent rentals are generally based upon sales levels or changes in the Consumer Price Index.

Leases With Savings and Profit Sharing Plan

At December 31, 1991, the Savings and Profit Sharing Plan owned 409 stores leased to the Company under capital leases and 652 stores leased to the Company under operating leases at rentals approximating market rates at the date of lease. During 1990 and 1989, the Savings and Profit Sharing Plan purchased 10 and five stores, respectively, from the Company. In

addition, 15, 16 and 50 properties were sold to third parties in 1991, 1990 and 1989, respectively, and at the same time, the leases with the Company were cancelled. Included in the consolidated financial statements are the following amounts related to these leases:

(Dollars in Thousands)	December 31 1991	1990
Buildings (net of accumulated amortization of $9,091 and $7,184)	$ 8,497	$10,539
Capital lease obligations (net of current portion of $2,412 and $2,497)	$11,941	$14,690

(Dollars in Thousands)	Year Ended December 31 1991	1990	1989
Rent expense under operating leases and amortization of capital lease assets, included in cost of goods sold	$31,731	$31,007	$31,168
Imputed interest expense on capital lease obligations	$ 1,440	$ 1,826	$ 2,033
Capital lease principal payments included in principal payments under long-term debt agreements	$ 2,457	$ 2,504	$ 2,481

15. INCOME TAXES

Provisions for income taxes are as follows:

(Dollars in Thousands)	Year Ended December 31 1991	1990	1989
Currently payable (refundable):			
Federal	$ —	$ 13,941	$(15,391)
Foreign	7,936	8,554	5,557
State	64	2,819	(2,150)
	8,000	25,314	(11,984)
Taxes on disposal of equity interest in Citgo	—	(205,813)	—
Tax benefits from utilization of net operating loss carryforwards	—	52,040	—
Income taxes (benefit)	$8,000	$(128,459)	$(11,984)

The $128,459,000 income tax benefit in 1990 represents the benefit derived from the use of the 1990 loss from continuing operations to offset taxes provided on the disposal of the Company's equity interest in Citgo.

Reconciliations of taxes at the federal statutory rate to the Company's actual taxes provided are as follows:

Payable (Receivable):

(Dollars in Thousands)	Year Ended December 31 1991	1990	1989
Taxes at federal statutory rate	$ 30,762	$(85,444)	$(448,425)
State income taxes, net of federal income tax benefit	42	1,861	(1,419)
Foreign taxes	7,936	8,554	5,557
Earnings taxed as dividends	—	—	(21,898)
Loss to be carried forward	200,991	74,759	54,785
Difference on net operating loss carryback	—	—	21,317
Amortization of cost in excess of tax basis	19,383	22,871	48,608
Write-off of excess of cost over fair value of net assets acquired	—	—	321,971
Tax benefits from utilization of net operating loss carryforwards	—	(52,040)	—
Difference in basis of assets sold	—	46,184	—
Portion of gain on debt restructuring not recognized for tax	(261,568)	—	—
Difference in LIFO as a result of purchase accounting	5,248	(143)	6,305
Equity in affiliates	3,966	(335)	(27,908)
Other	1,240	9,047	29,123
	$ 8,000	$ 25,314	$(11,984)

At December 31, 1991, the Company had book net operating loss carryforwards of $916,000,000.

During February 1992, the Financial Accounting Standards Board adopted SFAS No. 109, "Accounting for Income Taxes," which supersedes SFAS No. 96. The Company will adopt this statement as of January 1, 1993. The impact of the adoption of SFAS No. 109 is not known, and is not reasonably estimable at this time due primarily to the Company's continuing investigation as to the practicability of adjusting the accounting for the 1987 merger to comply with SFAS No. 109.

16. EARNINGS (LOSS) PER COMMON SHARE

Primary earnings (loss) per common share are based on net earnings (loss) reduced (increased) by preferred stock dividends and accretion to redemption value of the Redeemable Preferred Stock and the Warrants, divided by the average number of shares, including the Warrants (unless the effect of considering the Warrants is antidilutive), outstanding during each year.

Earnings (loss) per share assuming full dilution are antidilutive and, therefore, are computed on the same basis as primary earnings (loss) per common share.

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1991 and 1990 is as follows:

Year Ended December 31, 1991:

(Dollars in Millions, Except Per-Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	$1,867	$2,109	$2,133	$1,901	$8,010
Gross profit	364	442	451	400	1,657
Income taxes	—	—	6	2	8
Earnings (loss) before extraordinary item	(53)	7	6	(34)	(74)
Net earnings (loss)	90	20	6	(34)	82
Primary and fully diluted earnings (loss) per common share before extraordinary item	(.39)	.02	.01	(.08)	(.22)

The first and second quarters include a gain on the debt restructuring of $143,824,000 and $13,000,000, respectively, (see Note 1). The fourth quarter includes a LIFO credit of approximately $16,000,000 primarily due to a decrease in inventory levels and a charge of approximately $12,000,000 for additional interest awarded under the Credit Agreement in a March 17, 1992, decision of the Bankruptcy Court.

Year Ended December 31, 1990:

(Dollars in Millions, Except Per-Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	$1,928	$2,146	$2,229	$2,045	$8,348
Gross profit	371	447	466	402	1,686
Income taxes (benefit)	(40)	(33)	16	(71)	(128)
Earnings (loss) before extraordinary item and cumulative effect of accounting change for postretirement medical benefits	(121)	(58)	(123)	1	(301)
Net earnings (loss)	(97)	(58)	(123)	1	(277)
Primary and fully diluted earnings (loss) per common share before extraordinary item and cumulative effect of accounting change for post-retirement medical benefits	(6.08)	(2.98)	(6.12)	.04	(15.14)

The first quarter includes a $52,040,000 noncash extraordinary tax benefit resulting from utilization of prior years' net operating loss carryforwards (see Note 15), and a $27,163,000 charge for the cumulative effect of an accounting change related to postretirement medical benefits (see Note 13). The third and fourth quarters include a $41,000,000 loss on assets sold (see Note 6), and approximately $70,934,000 of income tax benefits to yield the annual tax benefit provision (see Note 15), respectively.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
The Southland Corporation
Dallas, Texas

We have audited the accompanying consolidated balance sheets of The Southland Corporation and subsidiaries (the Company) as of December 31, 1991 and 1990, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1991. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

As discussed in Note 13 to the financial statements, in 1990 the Company changed its method of accounting for postretirement benefits other than pensions to conform with Statement of Financial Accounting Standards No. 106.

Deloitte & Touche

Dallas, Texas
March 27, 1992

DIRECTORS

Masatoshi Ito
Chairman; President and Chief Executive Officer, Ito-Yokado Co., Ltd.; Chairman and Chief Executive Officer, Seven-Eleven Japan Co., Ltd.

Toshifumi Suzuki
Vice Chairman; Executive Vice President, Ito-Yokado Co., Ltd.; President and Chief Executive Officer, Seven-Eleven Japan Co., Ltd. [1]

John P. Thompson
Co-Vice-Chairman; formerly Chairman, The Southland Corporation [1]

Jere W. Thompson
Co-Vice-Chairman; formerly President and Chief Executive Officer, The Southland Corporation

Clark J. Matthews, II
President and Chief Executive Officer, The Southland Corporation

Yoshitami Arai
Chairman, Systems International, Inc.

Timothy Ashida
President, A.K.K. Associates, Inc. [1]

Jay W. Chai
Chairman and Chief Executive Officer, C. Itoh & Co. (America), Inc. [2]

Gary J. Fernandes
Senior Vice President and Director, EDS Corporation [3]

Masaaki Kamata
Senior Managing Director, Seven-Eleven Japan Co., Ltd.

Kazuo Otsuka
General Manager, Corporate Development, Ito-Yokado Co., Ltd. [1]

Asher O. Pacholder
Chairman and Managing Director, Pacholder Associates, Inc. [2]

Walter J. Salmon
Professor, Senior Associate Dean and Director, External Relations, Harvard Business School [2]

Nobutake Sato
Senior Managing Director, Ito-Yokado Co., Ltd.

Joe C. Thompson, Jr.
Chairman, Sigel Liquor Stores, Inc.

(1) - Compensation and Benefits Committee
(2) - Audit Committee
(3) - Named to Audit Committee in Jan. 1992

OFFICERS

Masatoshi Ito
Chairman of the Board

Toshifumi Suzuki
Vice Chairman of the Board

Clark J. Matthews, II
President and Chief Executive Officer

S.R. Dole
Executive Vice President and Chief Operating Officer, 7-Eleven Stores

Walton Grayson, III
Executive Vice President, Administration and Services

Frank J. Gangi
Senior Vice President and Chief Financial Officer

Stephen B. Krumholz
Senior Vice President, 7-Eleven Stores Operations

John H. Rodgers
Senior Vice President, Chief Administrative Officer, General Counsel and Secretary

Dale H. Allardyce
Vice President, Distribution, Food Processing and Procurement

Rodney A. Brehm
Vice President, Merchandising

Donald L. Burnside
Vice President, Western Region, 7-Eleven Stores

Adrian O. Evans
Vice President, Stores Development

David M. Finley
Vice President, Human Resources

James W. Keyes
Vice President

Stephen B. LeRoy
Vice President, Atlantic Region, 7-Eleven Stores

Vernon P. Lotman
Controller

Cecilia S. Norwood
Vice President, Corporate Communications

Michael K. Roemer
Vice President, Central Region, 7-Eleven Stores

Richard A. Turchi
Vice President, International Operations
(Retired 2/29/92)

David A. Urbel
Treasurer

CORPORATE HEADQUARTERS

The Southland Corporation
2711 North Haskell Ave.
Dallas, TX 75204-2906
(214) 828-7011

Mailing Address:
P.O. Box 711
Dallas, TX 75221-0711

FORM 10-K and OTHER INVESTOR INFORMATION

Requests for the Form 10-K Annual Report and other financial information should be addressed to the Investor Relations Manager at the above address, or telephone (214) 828-7209.

A recorded company update can be reached and requests for information can be left 24 hours a day by calling (214) 828-7587.

ANNUAL MEETING

The annual meeting will be held at 9:30 a.m. CDT on Wednesday, April 29, 1992, in the Cityplace Conference Center at the company's headquarters. All shareholders and bondholders are cordially invited to attend.

AUDITORS

Deloitte & Touche
Dallas, Texas

(Southland's Board of Directors has selected and is asking the shareholders to ratify the appointment of Coopers & Lybrand as the company's independent auditors for fiscal year 1992.)

COMMON STOCK TRANSFER AGENT/REGISTRAR

Ameritrust Company N.A.
1201 Elm St., 32nd floor
Dallas, TX 75270-2014
Dallas: 871-8844
Outside Dallas: 1-800-527-7844

(For names of bond and warrant trustees,
contact Investor Relations Department at (214) 828-7209.)

COMMON STOCK

Southland's common stock is traded on the NASDAQ National List under the ticker symbol SLCMC. The stock is listed as "SouldCp h" on the "Bid & Asked" or "NASDAQ Over-the-Counter" chart of most major daily newspapers.

	PRICE RANGE			
	BID		ASK	
QUARTERS 1991	HIGH	LOW	HIGH	LOW
FIRST (1)	$2 17/32	$ 15/16	$2 9/16	$1
SECOND	2 19/32	1 5/8	2 5/8	1 11/16
THIRD	2 5/16	1 13/16	2 13/32	1 15/16
FOURTH	3 1/32	1 7/8	3 3/32	1 15/16

(1) The stock was issued March 5, 1991, as part of the company's restructuring. The initial bid and ask trading prices were $.94 and $1.00 per share, respectively.

OTHER SECURITIES

The following other securities are traded over the counter, and reported price information (updated weekly) is available by calling the company's recorded message at (214) 828-7587:

12% Senior Notes due 1996

5% First Priority Senior Subordinated Debentures due 2003

4.5% Second Priority Senior Sub. Debs. (Series A) due 2004

4% Second Priority Senior Sub. Debs. (Series B) due 2004

12% Second Priority Senior Sub. Debs. (Series C) due 2009

Common Stock Warrants (expire 2/23/96; exercisable at $1.75 per share)

Common Stock Warrants (expire 3/15/95; exercise price, as adjusted: $10 per share)

7-ELEVEN AROUND THE WORLD

UNITED STATES

Franchised	3,045
Company-operated	2,944

CANADA

Company-operated	502
	6,491

LICENSED OR OPERATED BY AFFILIATES [1]

Japan	4,545 [2]
Taiwan	666
United States	651
Hong Kong	274
Australia	183
Mexico	140
Spain	81
Malaysia	81
Thailand	68
Singapore	63
England	60
Sweden	50
South Korea	36
Philippines	31
Norway	26
Puerto Rico	13
Panama	7
Guam	5
Brazil	4
Indonesia	4
Turkey	4
Virgin Islands	3
	6,995
	13,486

(1) Sales from stores operated by licensees or affiliates are not included in Southland's sales. Royalties from licensees and equity in affiliates are included in "Other Income."

(2) The 7-Eleven licensee in Japan, Seven-Eleven Japan Co., Ltd., and its parent company, Ito-Yokado Co., Ltd., jointly own IYG Holding Co., which purchased approximately 70% of Southland's common stock in March 1991.

STATE/PROVINCE	7-ELEVEN STORES	OTHER RETAIL	TOTAL
United States:			
Arizona	107	0	107
California	1,257	5	1,262
Colorado	264	0	264
Connecticut	40	0	40
Delaware	29	0	29
District of Columbia	25	2	27
Florida	553	0	553
Idaho	16	0	16
Illinois	165	12	177
Indiana	18	5	23
Kansas	27	0	27
Maryland	319	78	397
Massachusetts	36	2	38
Michigan	102	0	102
Missouri	115	2	117
Nevada	188	0	188
New Hampshire	8	4	12
New Jersey	217	0	217
New Mexico	22	0	22
New York	219	0	219
North Carolina	8	0	8
Ohio	21	0	21
Oklahoma	20	0	20
Oregon	142	0	142
Pennsylvania	192	10	202
Rhode Island	10	0	10
Texas	534	3	537
Utah	152	0	152
Virginia	658	63	721
Washington	287	0	287
West Virginia	16	18	34
Wisconsin	0	18	18
Canada:			
Alberta	132	0	132
Manitoba	56	0	56
Ontario	136	0	136
British Columbia	143	0	143
Saskatchewan	35	0	35
Total	6,269	222	6,491

All numbers as of December 31, 1991

The Southland Corporation
2711 North Haskell Avenue, Dallas, Texas 75204-2906
Phone: (214) 828-7011

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